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Born in Ireland; buried in Europe
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Chinese steel
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Telecoms
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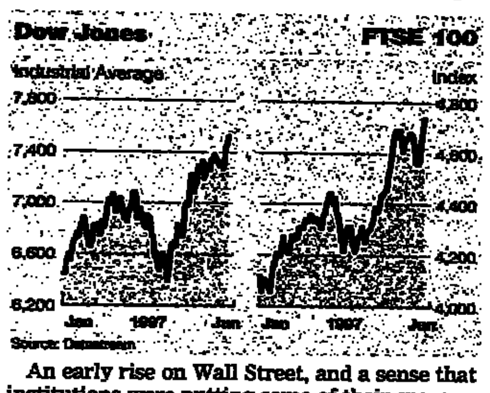
Survey, Separate section

World Business Newspaper http://www.FT.com WEDNESDAY JUNE 11 1997

US move on Cuba could threaten EU trade truce

The US House of Representatives was last night poised to reinforce the Helms-Burton anti-Cuba law with a measure which would put pressure on the State Department to bar more foreign executives of companies investing in Cuba from entering the US. If the measure passes the Senate, the truce between the US and the European Union, which averted a damaging trade dispute over Helms-Burton in April, will be in danger of coming apart. Page 14

Wall Street pushes Footsie to new high



An early rise on Wall Street, and a sense that institutions were putting some of their spare cash into the market helped the FTSE 100 index climb 52.9 points to a closing high of 4,739.6. In New York the Dow Jones Industrial Average looked on course for another closing high, leaping past the 7,500 mark on optimism that US interest rates would not need to be raised. At 1pm New York time, the Dow was 50.2 points higher at 7,528.7. London stocks, Page 30; World stocks, Page 34

Renault to review Belgian closure: Louis Schweitzer, head of French carmaker Renault, announced an independent study to explore alternatives to the closure of its Vilvoorde assembly plant in Belgium. Page 2

Music industry tackles internet pirates: The global music industry is to take a tougher line against any internet sites caught unlawfully distributing copyrighted music. Page 5

Bakun chief pressed over rights issue: Malaysian businessman Ting Pek Khiing, who is managing a national project to build the Bakun hydroelectric dam, is being pressed by underwriters to take some of the financial burden of an undersubscribed M$1.47bn (US$588m) rights issue. Page 15

20 may join China telecoms venture: Up to 20 of China's regional telecoms companies are candidates for the proposed £5bn ($8.2bn) joint venture between the Chinese government and Cable and Wireless of the UK. Page 15

Ramos denied another term: The Philippine Supreme Court ruled against a constitutional change to allow President Fidel Ramos to run again for the presidency next year. Page 4

Japanese win radio contracts: WorldSpace, a US-based satellite radio broadcasting company, said it had awarded contracts to four leading Japanese electronics companies to make digital radios intended mainly for the developing world. Page 6

Beijing wants army in HK for handover

China is pressing for armed troops to be stationed in Hong Kong before midnight on June 30, threatening a new dispute with Britain on the eve of the transfer of sovereignty. The call comes after a warning from Hong Kong governor Chris Patten that others might follow the lead of US secretary of state Madeleine Albright (above) and boycott the swearing-in of a Beijing-backed legislature. Page 14; Tung pledge to Democrats, Page 4

Multiplex cinemas reach China: China's first 12-screen multiplex cinemas are to open next year in Shanghai and Guangzhou. Hong Kong-based film company Golden Harvest is in final negotiations with the Chinese authorities for the $10m investment. Page 4

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7527.82	(+49.32)
NASDAQ Composite	1405.28	(-6.76)
Europe and Far East		
CAC40	2664.18	(+22.02)
DAX	3565.01	(-2.42)
FTSE 100	4739.6	(+52.9)
Nikkei	20,532.55	(+308.73)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	4.998%
Long Bond	97½
Yield	6.809%

OTHER RATES

UK: 3-mo Interbank	6¼%	(same)
UK: 10 yr Gilt	100½	(101)
France: 10 yr OAT	98.38	(same)
Germany: 10 yr Bund	101.64	(101.56)
Japan: 10 yr JGB	103.569	(103.577)

NORTH SEA OIL (Argus)

Brent Dated	$16.85	(17.04)

GOLD

New York Comex	$343.7	(343.9)
London close	$344.05	(same)

DOLLAR

New York lunchtime		
£	1.6376	
DM	1.718	
FFr	5.8102	
SFr	1.44295	
Y	112.395	
London:		
£	1.6393	(1.6342)
DM	1.7167	(1.7085)
FFr	5.8075	(5.774)
SFr	1.4431	(1.4376)
Y	112.58	(112.75)
Tokyo close:	Y 112.6	

STERLING

DM	2.8141	(2.792)

New York gives tax break to Merrill Lynch

By Richard Tomkins in New York

New York City yesterday approved a plan to give Merrill Lynch tax breaks worth nearly $28m to induce the investment banking and brokerage company to keep its worldwide headquarters in the city for another 15 years.

It is hoped the deal will help create 2,000 jobs over the period.

The plan is the latest controversial deal struck by New York with companies in the financial sector to justify its claim to be the financial capital of the world.

It comes just six weeks after the city agreed to give Standard & Poor's, the US credit rating agency, incentives worth $23.7m to stop it leaving for Jersey City, New Jersey, and up to $10.8m more if it adds 2,615 jobs in Manhattan over the same period.

In the last five years, 29 companies and financial institutions have received incentives running into hundreds of millions of dollars after threatening to leave New York.

They include ING Barings, Republic National Bank, Dillon Read, Travelers, PaineWebber, Prudential Securities, Morgan Stanley and the New York Mercantile Exchange.

The city says the tax breaks preserve existing jobs and create others, and that the cost is outweighed by the tax revenues generated by companies that would otherwise have left.

New York has suffered severe job losses in the banking sector, partly because of a wave of mergers and partly because advances in technology have made it easier for companies to move away from Wall Street.

Critics, however, say the deals do more harm than good.

"The trouble with giving these tax breaks is that they increase the tax burden on other businesses not powerful enough to wring them out of the city government," said Mr Myron Magnet, editor of City Journal, an urban affairs quarterly published by the Manhattan Institute, a right-wing think-tank.

"Precisely those small, job-creating businesses that the city should be fostering find themselves depressed by this policy. What the government should be doing is lowering taxes for everybody."

Merrill Lynch, one of New York's biggest employers with 9,000 workers in the city, had not been threatening to leave but over the last few years it has been cutting jobs in New York while adding them in New Jersey, Colorado and Florida.

It will now buy the former Broadway offices of the Swiss Bank Corporation, which moved from Manhattan to Connecticut in 1994.

French face EU clash over stance on Emu

By Andrew Jack in Paris, Neil Buckley in Strasbourg and Peter Norman in Bonn

France's new Socialist-led government appeared to be heading for a clash with its European Union partners last night, after leaders of five other EU states said there could be no changes to the stability pact that will accompany the single currency.

The five heads of government - including Chancellor Helmet Kohl of Germany, and the premiers of Italy, Belgium, Luxembourg, and Spanish foreign minister Mr Abel Matutes - agreed "unanimously" at a special summit in Strasbourg that the stability pact had to be ratified as planned at next week's Amsterdam summit.

Mr Jacques Chirac, French president, also said he hoped the pact, designed to enforce fiscal discipline in the future euro zone, would be ratified at Amsterdam, in the first sign of open disagreement with the government of Mr Lionel Jospin.

Mr Chirac's comments stood in stark contrast to remarks made on Monday by Mr Dominique Strauss-Kahn, the new social ist finance and industry minis ter, who said France needed more time to study the pact.

Mr Wilfried Martens, the former Belgian prime minister who chaired last night's Strasbourg summit of centre-right leaders, said the leaders wanted both the stability pact and the new EU treaty to conclude the year-long intergovernmental conference agreed at Amsterdam.

"We reject any form of change within the stability pact," he said. "Governments have committed themselves to it and we want [it] signed as it is by the 15 countries of the European Union [next week]."

He added that France's concerns about growth and employment creation could be dealt with by "properly applying" two articles of the EU Treaty dealing with employment - perhaps with a special declaration emphasising them added to the Amsterdam conclusions.

Speaking in Berlin yester day, Mr Theo Waigel, the Ger man finance minister, also ruled out a renegotiation of the sta bility pact, whose purpose is to impose budgetary rigour on countries participating in the single currency.

Later in the evening, the Dutch prime minister, Mr Wim Kok, hinted that European pol iticians would try to achieve a compromise acceptable to France in the coming days.

Elsewhere in Europe, there were other signs of sympathy with France's calls for more time to consider the implica tions of the pact.

Mr Strauss-Kahn has stressed that the socialists are committed to monetary union and to the maintenance of the existing calendar for its implementation. But he has also

Continued on Page 14
Lunatic instability, Page 12

BA shows its colours, but there's a twist to the tale

British Airways unveiled a colourful new image, reflecting its international links. But the airline warned it may drop its proposed alliance with American Airlines if regulators do not give it the go-ahead by November. Page 14. Flights of fancy, Page 13

US utility in '$5.86bn' takeover talks

By Simon Holberton and Ross Tieman

The Energy Group, the UK electricity and coal company recently demerged from Hanson, was last night in talks with PacifiCorp, a big US utility, which could lead to a recommended takeover bid by PacifiCorp worth more than £3.6bn ($5.86bn).

The company said that any bid would be at a 20 per cent premium to yesterday's closing price of 580p a share, giving a value of 696p, or £3.63bn.

Details of the approach were made to the stock exchange after the Takeover Panel queried an increase in Energy Group's share price, which rose 14p on heavy turnover.

Energy Group postponed publication of its interim results due tomorrow, signalling that an offer could be imminent. Directors from both companies were understood to be meeting last night at Energy Group's headquarters in Piccadilly, central London. Energy Group is being advised by Lazard Brothers and Morgan Stanley; PacifiCorp by Goldman Sachs. Mr Nick Pink, utilities analyst at SBC Warburg, said: "I don't think [696p] is a bumper price. We thought the break-up price was 754p."

Valuations of UK utilities have been driven down by concerns about the expected windfall profits tax on privatised utilities. Analysts expect Energy Group to pay between £70m and £120m in tax.

Energy Group consists of Eastern Electricity, the UK's biggest integrated electricity group, and Peabody Coal, the biggest private coal producer.

A bid by PacifiCorp would be widely seen as a test of the Blair government's attitude to foreign takeovers in the utility

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DKB purges 21 directors over racketeers scandal

By Gillian Tett in Tokyo

Dai-Ichi Kangyo, Japan's second largest commercial bank, yesterday purged 21 directors, including the former president and chairman, in Japan's biggest board resignation in the wake of the corporate racketeers scandal.

The directors resigned from DKB's 40-strong board to take responsibility for recent revelations that the company had financial links with corporate racketeers or *sokaiya*, who demand payments from companies in exchange for not revealing sensitive information about them.

Mr Katsuyuki Sugita, the 54-year-old managing director, will become president after the approval of the shareholders' meeting later this month.

Meanwhile Tokyo prosecutors arrested four more senior DKB executives, including Mr Tsuneo Uchida, the former vice-president, and Mr Kenji Tanaka, president of Jusco, one of Japan's largest retailers. Mr Tanaka had worked at DKB before joining Jusco in 1995 and becoming president last year. Jusco insisted it had no link with the scandal.

The arrests, which follow those of four middle-ranking DKB officials, reflect the Japanese authorities' determination to show firm action against financial scandals.

DKB said yesterday's resignations had removed any link with the scandal. In a break with traditional practice, the former directors would not be retained as "advisers".

Mr Hiroshi Mitsuzuka, Japan's finance minister, warned that DKB would need to take drastic action to prevent the scandal recurring. "DKB should not seek to fix things by merely reshuffling personnel," he said.

Mr Sugita is regarded as young enough to have avoided any contact with the *sokaiya*. Apart from a brief stint in New York he has spent most of his 30-year career with DKB in Japan.

The 13 new directors that have been appointed are mostly in their early 50s.

The bank said it would strengthen management controls and monitoring. It plans to appoint an external auditor to monitor operations.

The scandal erupted in March when Nomura, Japan's largest securities house, admitted that it made illicit payments in 1995 to a property company, Kojin Building, linked to *sokaiya*.

Nomura's former president has since been arrested and the company is waiting to receive a penalty from the government.

Last month DKB admitted it had made unsecured loans to Kojin.

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Further penalties, Page 16

CONTENTS

Commissioner wants Brussels and member states to co-ordinate employment policies across Union

Pull together on jobs, urges Flynn

By Robert Taylor, Employment Editor, in London

The European Commission should join forces with EU governments in co-ordinating employment policies across the Union, Mr Padraig Flynn, the social affairs commissioner, said yesterday.

"The employment chapter we want in the treaty at next week's Amsterdam intergovernmental conference will help to provide a focus in giving social affairs a much stronger role," he told the FT. "I know the Commission does not create jobs; that responsibility lies with member states. But we have to underpin their efforts."

With 18m people unemployed throughout the EU and recent election victories for the left in France and Britain, the draft employment chapter has assumed increasing importance. The new French and British governments, though far from united on the best way to create jobs, differ from Germany's ruling centre-right coalition in wanting a strong emphasis at Amsterdam on employment issues.

Mr Flynn said that, if Europeans were to accept the single currency, they would have to be reassured about social cohesion and stability. He noted, however, that "we don't want to return to the lax fiscal controls of the past that gave Europe its unemployment".

A canny conservative politician from County Mayo, in the west of Ireland, Mr Flynn has been in the social affairs post since January 1993 and has two and a half years more to go. "I am a moderniser," he insisted. "I believe in flexible labour markets. It was me and not Tony Blair [the UK's Labour prime minister] who invented the idea of a third way between the neo-liberal US and an over-regulated social Europe.

"I want high-quality, skilled workers who embrace change and don't resist it. I recognise the need for downsizing and restructuring but I want it done in a sensitive, sensible way. Regulation should only be necessary when it satisfies a need. There has to be flexibility but also security through employability."

Mr Flynn points to his recent consultation paper on new work organisation calling for high trust, high quality and flexible companies to meet the globalisation challenge as evidence of his enthusiasm to embrace change. He denies wanting to impose rules that would impede competitiveness and create burdens for business.

"There is no raft of new social measures in my top drawer to pull out," he said. "We are in a period of consolidation." But then he ran through a formidable list of proposals that are already moving inexorably through the EU machinery.

These include:

● Worker participation in European company law, described by Mr Flynn as "a necessity under monetary union".

● A "burden of proof" requirement upon employers to defend themselves against sexual discrimination allegations. Consultation is also being planned on sexual harassment at work.

● Expansion of the working time directive, limiting weekly working hours to cover transport workers and others.

● A social security measure for migrant workers from non-EU states by the end of the year.

● A move to extend information and consultation rights to employees in all in the EU employing more than 50 workers.

● New health and safety laws to cover explosive atmospheres and the use of scaffolding.

● The introduction of International Labour Organisation standards on homeworking into EU law.

But Mr Flynn wants to see most of this coming through voluntary agreements between European employers and trade unions, not directly via member governments. Last week's negotiated deal giving part-time workers the same rights as full-timers came through that "social dialogue".

"Employers have come on board," he said. "It makes good business practice. This way provides opportunities to sort out real problems. Nobody feels anybody is being jumped on."


Flynn: 'I believe in flexible labour markets'

EBRD's new vice president named

By Anthony Robinson, East Europe Editor, in London

The two-month search for a new vice president for the European Bank for Reconstruction and Development has ended with the selection of Mr Charles Frank, the 60-year-old vice president of GE Capital Services, to replace Mr Ronald Freeman.

Mr Frank, a US citizen, has no prior experience of lending to the former Communist countries served by the bank, but he has an extensive record in project financing. He also served four years as deputy assistant secretary and chief economist on the policy planning staff of the US State Department in the 1970s after a stint at the Brookings Institution and as an economics professor at Princeton University.

As first vice president of the EBRD Mr Frank will have ultimate responsibility for banking operations in an institution which has lent more than $10bn to the region over the past six years and whose capital was doubled last year to $20bn. He will chair the weekly credit committee meeting and provide strategic and management direction.

The US is the largest single shareholder in the bank, which was set up in 1991 to help finance the transition of former Communist states to a market economy. The top banking job is informally reserved for an American candidate.

Mr Frank was first approached a month ago about taking the post by Mr Ernie Stern, formerly managing director of the World Bank and now a senior executive of JP Morgan. This was after the original candidate backed off and the US Treasury failed to come up with one of its own.

For the past nine years Mr Frank worked at GE Capital, latterly as managing director of the structured finance group specialising in global project finance and other structured finance products. Earlier, he headed the group's global energy financing and international project finance section.

Before that, he was at Salomon Brothers for nine years after being recruited in 1978 by Mr Freeman who is now returning to Salomon's as the bank's London-based joint head of global investment banking after six years at the EBRD.

Spain rushes headlong towards Emu

By David White in Madrid

The Spanish government yesterday produced a series of upbeat economic estimates showing a strong recovery in growth and employment and reinforcing the country's prospects of meeting the conditions for joining the European single currency.

Ministers are increasingly confident of achieving budget objectives for the year, and expect a further fall in the inflation figures for May, due on Friday, to about 1.5 per cent year-on-year against 1.7 per cent in April. This would be less than half the rate at the end of last year and well within the target range for monetary union.

Brushing aside any suggestion of a delay to the introduction of the single currency, Mr Cristóbal Montoro, state secretary for the economy, described the latest figures as "Spain's passport to European monetary union".

He was also at pains to demonstrate that pursuit of the strict Emu criteria was compatible with employment growth – even in a country such as Spain, with the European Union's highest jobless rate, running officially at 21.5 per cent.

Mr Montoro said the number of Spaniards with jobs was reckoned to have increased by about 300,000 in the year following the centre-right Popular party's election victory in March last year. This was an increase of 2.5 per cent.

"We are creating more jobs, with less government spending" he said. Economists point out that the new jobs have not brought an equivalent fall in unemployment, since more Spaniards now want to work.

In opposition to the stance taken by France's new left-wing government, senior Spanish government figures consider that employment objectives are "out of place" in the Emu discussions. The argue that the way to promote more jobs is through internal reforms.

Mr Montoro forecast that annual economic growth would accelerate to more than 3 per cent in the second quarter. First-quarter growth was now reckoned to have been 2.9 per cent compared with the same period last year. This is higher than the Bank of Spain's earlier estimate of 2.7 per cent and sharply up on last year's average of 2.2 per cent.

He said the faster growth reflected rising consumer demand and investment, as well as strong exports.

Increases in employment and domestic consumption have meanwhile boosted the government's tax intake, easing the outlook for the budget deficit – its main challenge in its attempt to qualify for the first group of single-currency countries.

Mr José Folgado, state secretary for the budget, said that income tax and value added tax receipts had both risen more than expected. It should now be possible to reduce the central government deficit to the target level of 2.5 per cent of gross domestic product without resort to a supplementary budget "adjustment".

In the first five months the central government shortfall had been reduced by more than 30 per cent and represented "a little more" than 1 per cent of GDP.

The government is aiming to cut Spain's overall deficit for the year, including social security, regional and municipal budgets, to 3 per cent of GDP to meet Emu conditions, compared with 4.4 per cent last year.

EU tries to get asylum acts together

Greater harmonisation of policy is possible under new proposals, but not everyone sees this as an improvement, writes **Emma Tucker**

Amsterdam Summit

On first impression, the ivy-clad Petit Château asylum-seekers' reception centre in Brussels resembles an international college campus. Africans, east Europeans and Asians sit around the cobbled courtyards, some supervising their children on brightly coloured climbing frames, others enjoying the sun. Their listlessness gives the game away.

They are all waiting to hear whether their applications for refugee status will be turned down, or extended for a full investigation.

Normally, under Belgian law, the delay would last three months. But for many people it takes much longer, thanks to a European Union agreement that all asylum applications be handled in the country of first arrival.

Surrounded as it is by other member states, that country of entry is rarely Belgium. For people like Bob Pleysier, director of the Petit Château, the result is distressing.

"People should only have to wait two months for an answer, but sometimes we don't get any response for seven months from the country where they first entered," he says, citing the case of a young boy who has been waiting for four months to hear whether Germany will take him back.

The situation is typical of the mish-mash that is EU asylum and immigration policy. Some parts are co-ordinated, such as the obligation to hear asylum pleas in the country of first arrival. Others are the preserve of individual member states.

The result is a lack of uniformity in the interpretation and application of asylum rules, and big divergences in asylum policies and practices. These have led to irregular treatments of claims and given asylum-seekers an incentive to "shop around" for the most generous country.

Now a proposed revision to the EU's founding treaty, to be put to heads of state at next week's Amsterdam summit, could pave the way for much greater harmonisation of policy.

The draft treaty contains an amendment that would change key parts of asylum policy to allow the Commission to make proposals and requiring only a qualified majority of votes for them to be adopted.

Thus, policy in areas such as how applications are dealt with, minimum standards for the reception of asylum-seekers, and the treatment of mass influxes of refugees, could be better co-ordinated.

Refugee organisations have mixed feelings about the changes. So far, what little harmonisation there has been – for example, the Council of Ministers has agreed a common definition of a refugee – has resulted in a general lowering of standards for asylum-seekers.

On the other hand, some people working in the field of asylum believe greater co-ordination at an EU level could be positive.

"UNHCR [United Nations High Commissioner for Refugees] welcomes the harmonisation process as long as it is rooted in a drive to set common standards in accordance with internationally agreed standards," says Mr Johannes van der Klaauw, the organisation's senior European affairs officer in Brussels.

It also hopes that further harmonisation will subject the legislative process to proper democratic and judicial control, since the European Parliament and the European Court would have, for the first time, a role in the decision-making process.

There is also a feeling that, with votes taken by a qualified majority, liberal Nordic countries could influence developments in a positive way. The hope will be dashed, however, if countries such as Britain are successful in insisting that decisions remain subject to unanimity.

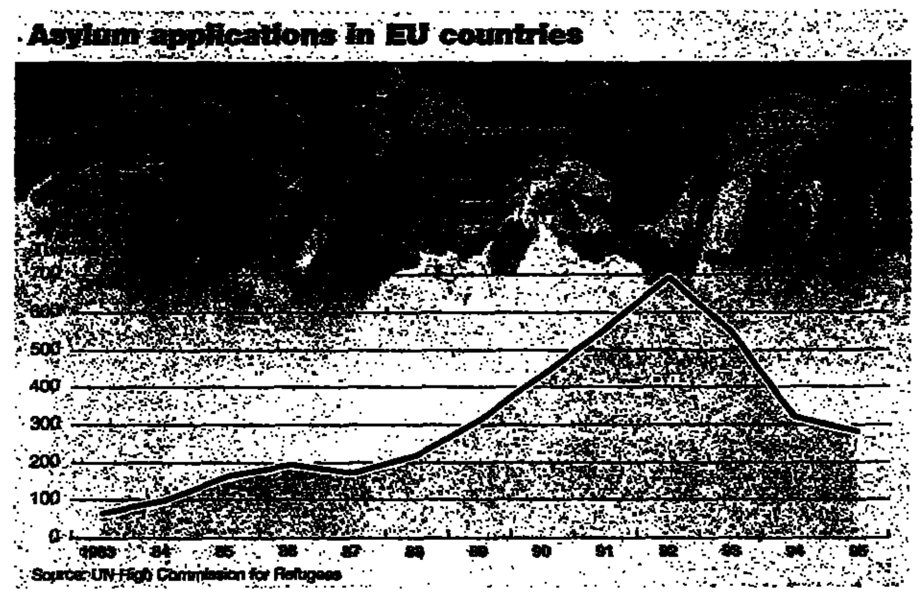
Whatever else, harmonisation would have big practical consequences for those working on the ground.

"The situation as it stands is a handicap for us," points out Mr Joan Ramakers, in charge of a reception centre in a leafy suburb outside Antwerp. "We should harmonise the whole thing, and treat people the same wherever they enter."

There is one other element that has aroused the opposition of human rights groups. Spain wants to amend the EU treaty so that nationals from one member state can no longer demand asylum in another EU country.

Spain's motive stems from cases where Basque terrorists have found refuge in other EU countries. But the UN and human rights officials say the move would override the 1951 international law that guarantees everyone the right to political asylum inside Europe.

Not only would it be wrong to exclude the possible need for international protection, they argue, it is also impossible to rule out a deterioration in the human rights records of member states, however sophisticated their present democratic systems.



Renault looks again at plant closure

By David Owen in Paris

The head of the French carmaker Renault, Mr Louis Schweitzer, yesterday announced an independent study to explore alternatives to the closure of its Vilvoorde assembly plant in Belgium. At the same time, however, he warned protesters at Renault's annual general meeting in Paris that they risked "condemning" the company.

He told shareholders at the tense and unruly meeting that the study would allow "an economic evaluation of possible measures" to compensate for the excess costs involved in the loss-making company's production structure.

However, he gave no indication that he had personally changed his mind about the necessity of the closure, which will result in the loss of 3,100 jobs.

"It is not by refusing to pay attention to the car market that you will build the future of Renault," he told hecklers, who frequently drowned him out during the course of his nearly hour-long speech.

One of the effects of yesterday's announcement is to give France's new Socialist-led government a few more weeks to decide its precise approach towards a issue that has become an early test case of how interventionist an industrial policy it intends to pursue.

In recent days, the government had appeared to edge away from direct confrontation with the company. The French state still owns 46 per cent of Renault's shares and has five out of 14 seats on the board.

The results of the new study will be given to the board of directors before the end of this month – a month ahead of the scheduled closure. If the company then confirms its closure decision, "appropriate social measures" will immediately be taken, while what Renault yesterday termed "a significant industrial activity" will be created on the site.

As tens of thousands of demonstrators marched in the French capital to urge the European Union to give a higher priority to jobs, Mr Schweitzer told shareholders that a return to break-even for the group's core car division remained "a reasonably accessible objective for 1997". This was in spite of the weaker-than-expected state of the French new car market, following last year's scrapping of a government incentive programme. "Under these conditions, at the group level, the net and operating results would be positive," he said.

Street protesters were kept away from yesterday's meeting, near the Invalides, with the aid of road blocks, a heavy police presence and phalanxes of crew-cut security men. Inside the hall, scores of hecklers repeatedly called for the Renault chairman's resignation, while other shareholders punctuated his comments with occasional applause.

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Support for the threatened Renault plant from a Jospin-masked demonstrator in Paris yesterday

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Air France in danger of missing its take-off slot

Change of government may ground sale of state airline, writes **David Owen**

Courteous and very frank. That was how Mr Christian Blanc, the Air France chairman, this week described his meeting with Mr Jean-Claude Gayssot, the new Communist transport minister. It was the first time the two men had met since the left's stunning general election victory.

They will have had much to talk about. Mr Gayssot's arrival at the ministry threatens to wreck Mr Blanc's hopes of piloting the state airline to privatisation by early next year.

Of the sequence of privatisations planned by Mr Alain Juppé's ousted centre-right administration, that of Air France is among those most threatened with delay or cancellation.

In a joint Socialist-Communist statement during the election campaign, the parties specifically committed themselves to halting the airline's privatisation. Interviewed in mid-campaign just over a month ago, Mr François Hollande, then chief Socialist spokesman, said more bluntly: "We have rejected [privatisation] for Air France."

In his few public comments on the issue since starting his new job, Mr Gayssot has left plenty of room for manoeuvre, saying he was not "closed in general to anything that can foster the development and growth of public enterprises". Nonetheless, Mr Blanc now seems to face an uphill battle to get his way.

Questioned on the subject late last month, ahead of the announcement of the company's first annual net profit since 1989, Mr Patrice Durand, vice president (finance), gave some insight into how Mr Blanc may frame his arguments.

First, he argued, Air France was operating in "a totally competitive world" and should no longer be considered a public service enterprise. Second, the French government had given an undertaking to the European Commission to privatise the group, which has received FFr20bn ($3.5bn) of state aid in a subsidy approved by the EU in 1994. Mr Durand acknowledged, however, that there was no date attached to the privatisation commitment.

For the moment, Mr Blanc has plenty of other issues in need of his attention, notably the planned merger with Air France Europe, the airline's loss-making domestic partner, which has sparked considerable employee unrest.

Cementing the considerable financial turnaround over which he has presided with a strong performance in the current half year will presumably also remain a priority.

But there can be little doubt that he would welcome a clear and early statement of the new government's intentions on this and other privatisation dossiers. So would potential domestic and international investors – including, perhaps, Continental Airlines and Delta Air Lines, Air France's two US allies.

NEWS: EUROPE

EUROPEAN NEWS DIGEST

CDU call over illegal labour

The parliamentary party of Germany's governing Christian Democratic Union called yesterday for black market labour on building sites to be made a criminal offence rather than a misdemeanour – as part of a package of proposals aimed at stemming rising unemployment in the construction sector.

The CDU also called for fines for employers using illegal workers to be increased and for contractors to be made liable for the behaviour of sub-contractors. Fines for employers using workers from outside the European Union who did not have work permits should be increased from the present DM100,000 ($58,600) to DM500,000 ($293,000). Fines for the workers themselves should be increased from DM1,000 to DM10,000, the CDU said.

The party also called for an extension on the existing two-year exclusion from public sector projects for companies found breaking the law.

The proposals are the latest attempt to address rising unemployment in the German construction industry and the increasing presence of foreign builders, particularly in Berlin. *Frederick Stüdemann, Berlin*

Balkan summit meeting urged

Greece and Russia yesterday called for a Balkan summit meeting to promote political stability and cross-border investment in the region. The proposal was made at a meeting of seven Balkan foreign ministers in the northern Greek city of Thessaloniki, which aims to become the region's business centre.

The initiative, announced by Russia's deputy foreign minister, Mr Nikolay Afanassievsky, and the Greek foreign minister, Mr Theodoros Pangalos, would give Russia a formal role in Balkan affairs for the first time.

But officials said the test of Russia's commitment to the region would be its willingness to guarantee oil supplies for the planned trans-Balkan pipeline. Greece and Bulgaria have reached an accord on building a $700m pipeline to carry Caspian oil from Bulgaria's Black Sea port of Burgas to Alexandroupolis on the Aegean, but the project is being held up by uncertainty over Russian participation. *Kerin Hope, Athens*

Séguin to lead RPR group

Mr Philippe Séguin *(left)*, the out-going leader of France's National Assembly, was yesterday elected leader of the Gaullist RPR group in opposition – following the recent general elections. Mr Séguin is the leading candidate to succeed Mr Alain Juppé as leader of the RPR party, and emerged during the election campaign as the unofficial head of the movement following Mr Juppé's resignation as prime minister. He said the parliamentary group had a "triple objective of reconciliation, renovation and openness" and stressed a willingness of the RPR to accept a broad-based range of supporters.

Separately yesterday, the UDF, the minority coalition partner in the out-going centre-right government, elected Mr François Bayrou, former education minister and leader of the Force Démocrate party within the UDF, as its parliamentary leader. The Communist party, which holds the balance of power in the new leftwing dominated National Assembly, elected Mr Alain Bocquet as its parliamentary leader. *Andrew Jack, Paris*

Moldova minister dismissed

Moldova's President Petru Lucinschi yesterday dismissed the privatisation minister, Mr Ceslav Ciobanu, and replaced him with Mr Iurie Badir, a member of the state audit office. The presidential decree gave no reason for the dismissal.

Mr Ciobanu had offered his resignation last month. Earlier this month, the parliament had expressed a vote of no confidence in Mr Ciobanu, based on a parliamentary committee's allegations that he had favoured the illegal sale by the state of a sanatorium to a company whose founders included his wife. *Reuter, Chisinau*

Duma defies Yeltsin on art

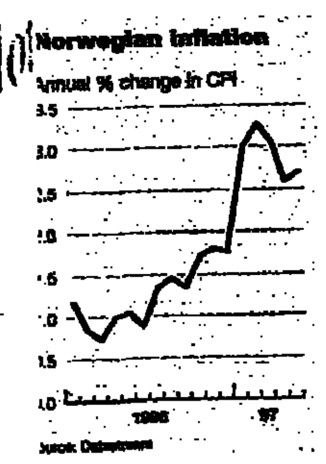
The Russian Duma yesterday defied President Boris Yeltsin over an emotional law about art trophies seized during the second world war, as the conflict between the Kremlin and Russia's other elected branches of government heightened.

Parliament's lower house is seeking to assert Russian ownership over art seized by the Soviets from Nazi Germany, an issue on which the parliamentarians enjoy huge public support. But Mr Yeltsin, concerned over keeping good relations with Bonn, is trying to block the bill.

A further clash with Russia's powerful presidency is expected today, when the parliament is scheduled to debate a government mini-budget which would sharply curtail state spending to offset poor tax revenues. However, the Kremlin, which has mounted a concerted campaign over the past few weeks to bring all branches of the government more firmly under its control, could face a legislative revolt. *Chrystia Freeland, Moscow*

ECONOMIC WATCH

Norwegian inflation rises



Norwegian consumer prices rose 0.3 per cent in May, taking the annual inflation rate to 2.7 per cent. The monthly rise was 0.2 percentage points above economists' forecasts, underlining the growing inflationary pressure in Norway's booming oil-rich economy. The annual rate is now running above the 2.5 per cent level projected for 1997 by Norway's central bank and finance ministry. Statistics Norway, the state statistics bureau, ascribed the month-on-month rise chiefly to higher petrol and food prices, while clothing and electricity prices declined.

Producer prices in May rose 0.5 per cent from April, lifting the annualised rate of increase from 0.5 per cent to 5 per cent. *Greg McIvor, Stockholm*

The EU economic sentiment indicator improved in all member countries for which data were available in May, except in Denmark and Italy, according to a survey of business and consumers published by the European Commission.

German consumer prices rose 0.4 per cent in May from April, and were up 1.6 per cen from a year earlier. West German CPI rose 0.4 per cent from April and was up 1.5 per cent from a year earlier, while east German prices climbed 0.4 per cent and 1.8 per cent respectively.

Investment in Bulgaria is a bit of a lottery, say Greeks

The travels of Intracom, a Greek electronics manufacturer hired by a state sports organisation five years ago to modernise Bulgaria's football pools, highlight the obstacles to investing in one of eastern Europe's most difficult markets.

Mr Socrates Kokkalis, Intracom chairman, yesterday asked Bulgaria's new pro-market prime minister Mr George Kostov to help unblock a contract for the Greek company to set up a $40m electronic lottery system for Bulgarian Sports Totalizator (BST), which is run by the politically influential state sports authority.

Bulgaria's supreme court has refused to recognise a decision by the Paris-based International Court of Arbitration to award Intracom $10m in damages because BST failed to keep the terms of an earlier contract. The Bulgarian court ruled in March that the decision violated Bulgarian law and public order.

In April, the Sofia prosecutor added to Intracom's troubles by ordering BST to withhold payment for electronic lottery terminals due to be installed in the next few months.

"We have equipment ready to be shipped; we have a joint venture with a Sofia electronics manufacturer to start assembling terminals locally; we waived the damages payment and signed a new contract because we want a long-term business relationship in Bulgaria. It's incredibly frustrating," says Mr Costas Antonopoulos, managing director of Intralot, the group's electronic lottery operation.

INTRACOM

The International Monetary Fund, at Intracom's request, raised the contract issue with Bulgarian government officials during a visit to Sofia last month.

The supreme court decision raises broader concerns about foreign investment in Bulgaria because the international arbitration courts are cited as regulators of possible disputes in contracts signed with international agencies, such as the World Bank and the European Bank for Reconstruction and Development.

Intralot has developed markets for its electronic gaming systems in the US, Russia and Romania. Mr Antonopoulos says the Bulgarian investment would follow the same pattern as Romania, where the group manufactures terminals and other equipment locally for a popular on-line football pool and other games.

Intralot received more than 2,000 applications from unemployed Bulgarian computer and software experts for 250 jobs at TTT, the bankrupt Sofia electronics manufacturer which became the Greek group's joint venture partner last year, says Mr Antonis Dimos, general manager for Bulgaria.

Since the demise of communism, Bulgaria has become the main market for Greek companies seeking to expand in eastern Europe. Intracom, in which Ericsson of Sweden has a 13 per cent stake, is among a group of Greek companies listed on the Athens stock exchange that have invested an estimated $150m in Bulgaria, mainly in joint ventures in consumer goods and food processing.

Greek interest in Bulgaria's much-delayed privatisation programme has picked up since the election in April of a conservative government committed to speeding economic transition.

An OECD report on the Bulgarian economy published just before the election notes: "Foreign investors continue to rank the business environment in Bulgaria as one of the least hospitable in transition countries."

A Greek consultant based in Sofia says disputes over contract obligations are frequent between Greek companies and business partners in the southern Balkans, "but the difference in Bulgaria is that the judiciary is very unpredictable and individuals can have a disproportionate influence on decision making".

Intracom has weathered political and legal battles over its activities in the past, both in Greece and Bulgaria.

Mr Kokkalis, a prominent personality in Greece who controls a popular Athens radio station and also funds Olympiakos, Greece's most successful basketball team, was accused of causing the collapse of a conservative Greek government in 1993 in a dispute over a $300m equipment contract for OTE, the state telecommunications operator.

Another joint venture in Bulgaria, this time with the state telecommunications operator BTC, has come under attack because Intracom's equity stake of 70 per cent was seen as excessive.

Intracom says that the size of its holding reflects an undertaking to provide most of the financing for Bulfon, the joint venture which installs and operates card phones manufactured in Greece.

Kerin Hope and Theodor Troev

Selling lottery tickets the old way in Sofia

The age of the multiplex cinemas arrives in China

By James Harding in Shanghai

China's first modern 12-screen multiplex cinemas are to open next year in Shanghai and Guangzhou, promising movie-goers, disenchanted with dilapidated local film-houses,a taste of luxury entertainment.

Golden Harvest, the Hong Kong-based film company, is in final negotiations to open 2,000-seat multiplexes, which will offer the widest choice to the largest audiences in China.

Partly to help meet the demand likely to be generated by its own cinemas, the company has also launched a $30m fund to invest in Chinese film-making, together with a number of Singapore-based companies.

Golden Harvest, which has produced hundreds of Chinese films, notably kung fu movies starring Bruce Lee and Jackie Chan, is looking at 30 other sites in China and has announced a venture with a Singapore partner to build a six-screen cinema in Shanghai.

The estimated $10m investment in the two 12-screen entertainment centres marks a breakthrough for foreign involvement in China's state-controlled film industry. Cinemas have only recently been opened to foreign investment and the Beijing leadership remains reluctant to open the door to Hollywood, fearing an onslaught of western "spiritual pollution".

In 1996, the authorities allowed just 14 foreign films to be be distributed on commercial release and rejected such films as "Goldeneye" and "Apollo 13" on political grounds. More than two thirds of movies shown must be made in China, with content sanctioned by the state. Golden Harvest says the multiplex plan is "ambitious" given the limited supply of films in China.

Mr William Brent, president of China Entertainment Network, a Shanghai-based film, TV and music consultancy, says censorship and alternative domestic film entertainment have "brought the market to its worst point, but things are starting to get better... You are not going to make a return on an investment in the short term, but in the end it may be hugely lucrative".

Officials with the Ministry of Radio, Film and Television are drafting regulations to allow foreign funds to revamp China's movie theatres. The run-down, single-screen auditoriums are struggling to keep audiences who can often afford to watch the latest, uncensored videos and video CDs in the comfort of their own homes.

But American film exhibitors have struggled to win cinema operating licenses, making the Golden Harvest consortium one of the few international companies allowed to operate in mainland China. "This area is very sensitive. The film business has been heavily protected by the Chinese authorities who view films not as entertainment but to be used for propaganda purposes. So they really prefer Chinese nationals to operate cinemas," a Golden Harvest spokesperson said.

Steelmaker rises as China's national model

James Harding reports on a state group allowed to manage its own business – for the time being

Li Ming

Mr Li Ming, chairman of Baosteel, sympathises with the chief executives of China's loss-making state-owned enterprises: "They are too tired to take care of their businesses. They spend their time managing their employees' housing, the children's schooling, they take care of their workers' grandmothers."

By contrast, Baosteel, on the outskirts of Shanghai, has farmed out such responsibilities to independent bodies and "what we care about is material handling, steel production, hot-rolling and cold-rolling. That is what we manage".

The hands-off approach to workers' welfare is not the only thing that makes the company unusual: Baosteel is a highly profitable state-owned enterprise (SOE).

Most industrial companies in China's state sector are making losses. Weighed down by the legacy of inefficient communist management and a bloated labour force, the SOEs are sustained by state subsidies, which strain China's over-stretched budget.

Baosteel, though, which generated more than Yn3bn ($360m) in profits and taxes last year, is a national model and the government hopes to see it grow into a conglomerate – a Japanese *keiretsu* or Korean *chaebol* with Chinese characteristics.

"By 2010, Baosteel aims to have built itself into a large multinational – one of the top 500 enterprises in the world – with steel production at the core, but integrating industry, finance and trade," says Mr Li in an interview, offering a glimpse of how China hopes to salvage some success from the wreckage of the state sector.

By the end of next year, Baoshan Iron and Steel Group, or Baosteel as it is commonly known, will be the biggest steelmaker in China, the largest steel-producing country in the world.

The company started operations in 1985, relying heavily on foreign technology and expertise, and in two phases has built production to 8m tonnes per year. The completion of phase three by the end of 1998 will lift output to 11m tonnes.

Last year's sales dipped as operations in the No.1 foundry were stopped for renovation, but the company still improved profitability on Yn23.6bn turnover, reporting pre-tax profits of Yn3.1bn. The company's goal for 1997 is sales of Yn28bn and Yn4bn in profits.

The transformation into a conglomerate has already begun. Baosteel has stakes in two Chinese insurance companies and is investing in Guangda Bank. Last year, Baosteel consolidated its trading subsidiaries to form Baosteel Group International Trade Corporation with a view to building an international and domestic trading business on the back of its steel interests. The company is also building a shipping division.

The parallels with Japanese and Korean conglomerates are obvious and, while Mr Li stresses Baosteel's unique development, he acknowledges "we imitate some models from Korea... For example, Daewoo started as a trading company and developed into an industrial company. We are doing it the other way round."

Shanghai's municipal government hopes to foster three world class conglomerates over the next 15 years.

However, more officials are consumed with managing the decline of the state sector than the rise of national champions. The city, which leads the country in the awkward process of state enterprise reform, has let 58 SOEs go bankrupt since 1994, and in 1997 alone expects 100 bankruptcies of state companies with debts of more than Yn6bn.

The winding down of state industries carries alarming social risks. Declining and defunct businesses in Shanghai have already laid off more than 1m people since 1990 and further mass redundancies loom. Baosteel has so far rebuffed political pressure to maintain employment, cutting the workforce again last year from 12,800 to 10,500, and Mr Li's unswerving message to the management of troubled SOEs is to concentrate on the imperatives of business.

"The management of Baosteel is sensitive to the markets. We focus on production and efficiency," he says, pointing to the company's commitment to quality and technology as symptoms of this mentality.

"The equipment and technology we use in Baosteel is new and can adapt very quickly to the changing market... The Chinese market is so large, there are too many companies which are too impatient. They import secondhand equipment that is already outdated so production cannot catch up with western companies."

Although much of the debate about improving the performance of state companies revolves around the delicate issue of ownership, Mr Li is ambivalent about privatisation. "Whether the enterprise is wholly owned by the state or transformed into a shareholding company, it can work only as long as it has its own strategy. The central government could give companies more freedom to enliven the economy," he says.

To date, Beijing has granted Baosteel a fair degree of that commercial freedom, one of the conditions for the company's success. Model companies, however, come and go in China's corporate history. A generation ago, Daqing oilfield was heralded as the harbinger of modern Chinese industry. In the 1980s, China's Capital Iron and Steel, or Shougang group, was an example of Chinese enterprise, until corruption scandals tarnished its image.

Baosteel's future is by no means assured. The company is being pushed towards a merger with Shanghai Steel, the struggling municipal steel company. The state-sponsored strategy is to transfer the burden of modernising the local steel company and relocating its redundant workers to Baosteel.

If faced with that uncomfortable task, the question will remain whether the central government or the municipal authorities or Baosteel itself will manage the business.

ASIA-PACIFIC NEWS DIGEST

Thai minister stripped of role

In the first signs of significant political fallout from Thailand's economic woes, the prime minister, Gen Chavalit Yongchaiyudh, has taken the role of economic policy co-ordinator from the finance minister, Mr Amnuay Viravan.

Gen Chavalit fought off a move by some members of his six-party coalition to force the finance minister from office but the decision to hand the largely symbolic role to Gen Chatichai Choonhavan, a former prime minister, may erode Mr Amnuay's authority within the government.

It also may set the stage for future conflicts over such sensitive issues as the state-sponsored bailouts of the finance sector and flagship computer chip exporter Alphatec Electronics.

While investors generally feel comfortable with Mr Amnuay, a former Bangkok Bank president, he has come under criticism for failing to implement policies to revive the economy.

Gen Chavalit said after a meeting of coalition leaders on Monday that Gen Chatichai, leader of the powerful Chart Pattana party, who presided over record levels of economic growth before being ousted in a 1991 military coup, would chair weekly meetings of ministers to formulate economic policy proposals for cabinet scrutiny. *Ted Bardacke, Bangkok*

Baht loophole stopped

Thailand's central bank has closed another loophole in its new two-tier foreign exchange market by preventing foreign investors from obtaining baht by selling Thai equities. Custodian banks are now required to settle foreign investors' stock sales in US dollars and not Thai baht. The move comes after two days of volatility on the Thai market which many dealers attributed to foreign investors getting their hands on scarce Thai baht by selling their equities. Yesterday the Thai stock market closed down 7.24 points at an eight-year low of 527.22.

Investors moved the baht overseas to take advantage of the large differential that grew between the offshore and domestic baht rates since the Thai central bank prohibited local banks from selling baht to foreign investors suspected of engaging in speculation against the currency. The baht was unchanged yesterday, closing at 25.74 to the dollar in the domestic market and 24.15 to the dollar offshore. *Ted Bardacke, Bangkok*

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Japanese mobile phone boom

Japan's mobile communications market grew 71 per cent in the year to March to a record Y4,061bn ($35bn), according to the Ministry of Posts and Telecommunications. This strong growth has been spurred by falling prices of cellular handsets, the spread of Personal Handyphones, a lower cost form of cellular service, and a growing range of discount fees.

Growth since 1994, when handsets were liberalised, has been particularly strong. The ministry is forecasting another 27 per cent increase in the market to Y5,137bn this fiscal year. The rise in the number of subscribers to mobile phone services has been even more spectacular with subscriptions up 116 per cent last year to 28.2m. That makes Japan the second largest market after the US, which has 44m subscribers but about twice the population of Japan. Mobile phone penetration in Japan more than doubled last year to 22.4 per cent, pushing Japan to fourth place after the three Scandinavian countries of Finland, Sweden and Norway. *Michiyo Nakamoto, Tokyo*

Tung pledge to Democrats

Mr Tung Chee-hwa, Hong Kong's future leader, said yesterday he would continue a dialogue with the Democratic party, the territory's largest political group, which will be absent from the post-handover legislature.

He agreed to let them hold meetings with policy secretaries and said their views would be taken into account. He urged the party to take part in legislative elections, due in the first half of 1998, promising they would be fair, open and democratic.

The Democratic party has been a vocal critic of Chinese policy towards Hong Kong, notably Beijing's plans to scrap the elected legislature and replace it with a hand-picked provisional legislature. *John Ridding, Hong Kong*

Australia eases liquidity rules

A diminishing supply of federal government securities and a shift in the approach to liquidity management has led Australia's Reserve Bank, the central monetary authority, to halve the "prime assets requirement" for the nation's banks.

At present, they have to hold 6 per cent of liabilities in "high quality, readily cashable" assets, such as Commonwealth government securities or notes and coins – in effect making these assets an emergency source of liquidity for the banks. But from June 23 the RBA is cutting the required ratio to 3 per cent and widening the eligible assets to include A$-denominated securities issued by state and territory governments. *Nikki Tait, Sydney*

Manila ruling opens race for presidency

By Justin Marozzi in Manila

The Philippine Supreme Court yesterday delivered a resounding blow to President Fidel Ramos's hopes of running for a second term.

The court's ruling, upholding a ban on a constitutional change to allow Mr Ramos to run again, changes the terms of debate in Manila in the run-up to the 1998 presidential elections, and comes on the eve of today's planned merger of opposition parties.

It should end the long-standing fight between those wanting to remove the present limit of a single six-year term for the president and those, including opposition politicians, the powerful Roman Catholic church and former President Corazon Aquino, who have bitterly contested such moves.

Despite repeated statements from the president that he intends to stand down next year, many political observers believe he is eyeing another term.

Western diplomats expressed surprise at the court's decision, following widespread speculation it was going to reverse its earlier ruling against the constitutionality of the initiative.

The ruling itself, a split 6-6 decision with two abstentions (enough to let the previous ruling hold), is an indication of the divisions over the question of a second term for Mr Ramos, widely considered a successful president.

The 1987 constitution, framed after two decades under the dictator Ferdinand Marcos, provides strong checks against the executive, notably from the judiciary.

Many now feel, however, that the country has turned the pages on that chapter of its recent history. They argue that five years into strong economic recovery under a reformist leader, the Philippines should not be hamstrung by an anachronistic constitutional restriction, particularly when the leading contender to replace President Ramos is vice-president Joseph Estrada, a populist widely seen as a threat to the country's progress.

For opposition parties, however, the death blow to the initiative is a much-needed fillip on the eve of an ambitious plan to unite their fractious elements.

"Send the word to all investors, domestic and foreign: political stability in the Philippines is assured now and in the immediate future," said Senator Miriam Defensor-Santiago, a leading opposition politician.

Opposition parties are expected to launch a merger today with the object of fielding a common standard bearer against the administration's candidate. But there are doubts it will be able to survive competing presidential ambitions because the grouping is set to include the vice-president, Mr Estrada and Senator Edgardo Angara, head of the main opposition Laban party.

Mr Rolando Andaya, a congressman from the ruling Lakas party told a local newspaper that combining several ambitious candidates under one roof "is like mixing the ingredients of a Molotov cocktail".

As if to confirm that suggestion, Senator Defensor-Santiago has shied away from the alliance, accusing its leaders of making the choice of a single candidate a fait accompli, although there were hopes last night she would still back the project.

On the other side of the political divide, news of the court ruling and the opposition merger raise the stakes for the handful of contenders vying for presidential endorsement, which can add anything up to 25 per cent to a candidate's vote.

As President Ramos increasingly becomes a lame duck, contenders such as Mr Renato de Villa, defence secretary, and the highly regarded Senator Gloria Macapagal-Arroyo will now have to show their colours. Elections may be almost a year away but presidential campaigning is under way.

NEWS: INTERNATIONAL

Kuwaitis charged with shooting MP

By Robin Allen in Dubai

Five Kuwaitis appeared in court yesterday accused of the attempted murder last Friday of Mr Abdalla al-Nibari, a liberal MP.

Mr al-Nibari and his wife were shot as they drove back to Kuwait City from a beach near the Saudi border. Both survived the attack.

The shooting has re-awakened fears for Kuwait's fragile democracy. Although based on an all-male franchise restricted to 15 per cent of the population, it is regarded as dangerously liberal by neighbouring ruling families, particularly in Saudi Arabia.

Mr Ahmed al-Saadoun, the national assembly speaker, said: "The country is in real danger. These people [Mr al-Nibari's assailants] are not without allies." On Saturday he praised Mr al-Nibari's efforts against "corruption and the corrupters" who aim "to attack democracy and destroy this country".

Mr al-Nibari, who is 61, has been a persistent critic of alleged government corruption, and is the second MP in six years to have survived an assassination attempt. Mr Hamed al-Jouan, another liberal, was shot in 1991 and served in parliament in a wheelchair. His assailants have not been found.

Mr al-Nibari was first elected to parliament in 1992 after the ruling al-Sabah family reluctantly kept its promises, made during the 1990-91 Iraqi occupation of Kuwait, to hold national elections after liberation.

Allegations of state corruption, and collusion between bureaucrats and private individuals, have frequently been made in parliament since 1992.

The most conspicuous have been those involving accusations against Sheikh Ali Khalifah al-Sabah, the former oil minister, who faced charges of making $200m illegal profits from operations of the state-owned Kuwait Oil Tanker Company (KOTC) in the late 1980s.

Sheikh Ali has repeatedly denied the charges, which have never been proved.

But the issue was still a live one, according to Mr Jassem al-Saadoun, a brother of the national assembly speaker. This was despite reports last month that a special ministers' court had dropped the KOTC fraud case.

More recently there have been parliamentary allegations of unlawful commissions paid in connection with a defence ministry award to the UK for Sea Skua missiles to be fitted to eight frigates to be supplied by France. The contract has still not been officially signed.

Much of the parliamentary criticism has come through the public funds committee, an amalgam of the finance and legislative committees of the national assembly. The former cross-examines the finance minister and other finance officials over the management and public accountability of state funds. The latter, according to western diplomats, "looks at the laws and their correctness".

Textbook struggle engulfs Jerusalem

Schools are the latest battlefront as Arabs and Israelis jockey for position before the final status talks

At 9am this morning 2,000 young Palestinians from east Jerusalem will sit their final school examinations. Some will go on to university, others will look for jobs.

But for the Palestinian Authority and Mr Ehud Olmert, the mayor of Jerusalem, today's exams mark the beginning of a struggle over the future control of education in east Jerusalem.

At issue is whether Palestinian children will continue to study under the Tawjihi, the Jordanian curriculum which the Authority wants to modify slightly, or under the Bagrut, the Israeli curriculum.

"Everything in Jerusalem is now a battle," said Mr Mohammad Sowwan, president of the Palestinian Teachers' Union. "We will do everything possible to retain the status quo."

Until Israel's annexation of east Jerusalem in 1967, the Tawjihi curriculum, recognised throughout the Arab world, was applied also in the West Bank and the eastern part of the city then under Jordanian con trol.

The Israeli government, determined to assert its authority over the whole of Jerusalem, then attempted to introduce the Bagrut in east Jerusalem's state schools but not across the West Bank or Gaza.

The city's Palestinian parents quickly reacted, sending their children, at considerable expense, to the 61 private schools which retained the Tawjihi. After school Palestinian students could continue their studies in Arab universities throughout the Middle East.

Then in 1974, under international pressure, the Israelis dropped the Bagrut curriculum in east Jerusalem's state schools and restored the Tawjihi.

But attempts to change the curriculum emerged once again following the Oslo Peace accords which granted the Palestinians limited autonomy in the West Bank and Gaza Strip, but not in east Jerusalem.

The status of the city was supposed to have been left until the final status negotiations. But the dispute over education highlights how the Palestinians are determined to retain the current system while the Israelis are just as determined to create facts on the ground before the start of those negotiations.

The former labour government decided to leave the Tawjihi in place. But Mr Ehud Olmert, elected Likud mayor of Jerusalem in 1993, has been trying ever since to reduce Palestinian influence and all PA's symbols of statehood.

When a batch of school books, printed in the West Bank, was distributed to the schools in east Jerusalem some months ago, the Israeli authorities saw that they carried the Palestinian Authority's coat of arms. The municipal authorities spent one entire day covering them up with the City of Jerusalem's coat of arms. "The PA stamp was regarded as a horrible stain on the honour of Israel," said Mr Daniel Seidemann, a human rights lawyer and defender of cultural and educational pluralism in what is supposed to be a pluralist city.

"Olmert is trying to build his nationalist platform by taking a hard stand on Jerusalem. This is a nationalist struggle with the Israelis wanting to erode any movements of autonomy."

Jerusalem's Education Authority denies it is trying to stamp out Palestinian identity in east Jerusalem. "The fact is that the Palestinians do not want us to be involved in the examinations at all," said Mr Meir Kraus, its head. He said the PA tried last month to stop the east Jerusalem children from sitting their examinations in the municipal halls, moving them instead to the private schools where there are few Israeli supervisors.

"The PA has no right to do this. Nor has it a right to operate in east Jerusalem. We are very unhappy with this situation." He said the government's special committee on Jerusalem would decide in three weeks what measures to recommend for east Jerusalem's education system.

For the Palestinians, the retention of the Tawjihi curriculum is crucial. "It would be a massacre for the kids if the system was changed," said Mr Samir Seqali, headmaster at St George's School, a private school founded by the Anglican bishop where over 90 per cent of the children are Moslem. "What would happen to their education?"

Mr Sowwan, whose union represents 18,000 teachers from across the West Bank, Gaza Strip and east Jerusalem, believes that another agenda is behind attempts to replace the Tawjihi curriculum with the Bagrut. "The Israelis want to cut off Jerusalemite Palestinians from the rest of the West Bank. This is a political move. Nothing more," he added, promising next year's matriculation students from east Jerusalem would sit the Tawjihi until the PA has its own curriculum in place.

Judy Dempsey

Learning under the Israelis: Arab children line up at a Jerusalem school — Popper

Freetown denies request to Libya

Sierra Leone's military junta hinted yesterday at a crackdown on the press as it sought to counter reports it had turned to Libya for military support, AP reports from Freetown.

Declarations read on state-run radio also threatened merchants with "stringent measures" if they did not control prices of food and other necessities, which have soared since the May 25 military coup.

Little has changed in the capital 16 days after soldiers ousted President Ahmed Tejan Kabbah's civilian government. Civil servants and others refuse to go to work, either unable to get there for lack of transport or staying off the job to protest at the coup.

Maj Johnny Paul Koroma, self-proclaimed head of state, had threatened mass firings if people did not return to work on Monday, but there was no sign his warnings had had any effect.

Banks and government offices were closed again yesterday. The few shops that opened had long queues of customers eager to buy what little they could afford.

In its morning broadcast, Maj Koroma's Armed Forces Revolutionary Council denounced a local newspaper's report that an AFRC delegation had gone to Libya to seek military backing from its leader, General Muammer Gaddafi.

Fears of a second attack similar to the one Nigeria launched the week after the coup have contributed to the lack of business activity in the city. Most people are scared of being caught in fighting, which killed at least 50 people last month.

The fears have also prompted a flood of refugees into neighbouring Liberia, itself a war zone until last year's ceasefire. Ecomog, the west African peacekeeping force, said thousands of people crossed daily into Liberia's northern Lofa county.

Move on internet music piracy

By Alice Rawsthorn in London

The global music industry is preparing to take a tougher line against internet sites unlawfully distributing copyrighted music.

On Monday, the Recording Industry Association of America, which represents the US record companies, filed civil actions against three US-based internet sites which were allowing consumers to download music on to personal computers without record companies' permission.

This is the first time the industry has initiated legal action against digital pirates. The RIAA's counterparts in other countries are considering following suit at a time when record companies are preparing to make commercial use of the internet and other digital distribution systems.

Digital piracy has long been recognised as a problem among owners of intellectual property rights in other sectors.

In the music industry the situation has worsened recently as faster modems have made it quicker and easier to download music on to computers.

The RIAA said it had sought temporary restraining orders against three sites in New York, Texas and California, each of which was enabling consumers to download several hundred copyrighted songs free of charge.

The association, which employs a team of full-time investigators to surf the internet in search of copyright infringements, also plans to contact US university authorities asking them to stop students from distributing copyrighted music on university-owned Internet servers.

Outside the US, the UK and Swiss music industry associations have dispatched written warning letters to internet pirates.

Peso crisis turbo-charges revolution in motor trade

Nancy Dunne and **Daniel Dombey** on a sector changed beyond recognition by a free trade deal – and a recession

NAFTA

In 1993 GM sold ten US-made vehicles to Mexico. Last year it sold 31,000 – more than any other car company. The 1994 North American Free Trade Agreement appears to have turned out to be good – for General Motors at least – as its backers had promised.

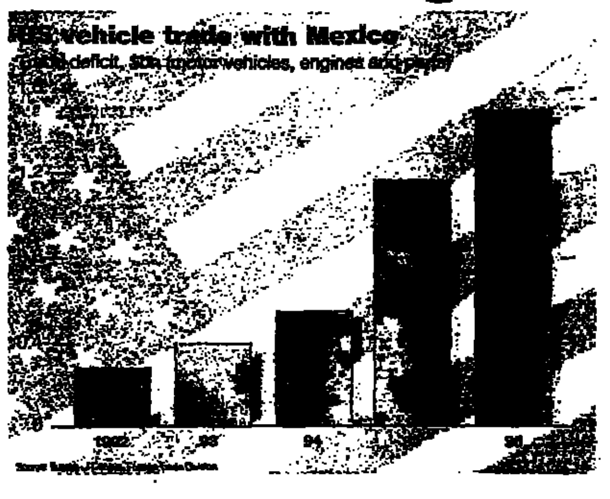
But whether it is also good for America is another matter. Nafta's opponents would point out that last year GM exported nearly seven times as many vehicles from Mexico to the US as went the other way.

Mexico has not become the thriving consumer market envisioned by Nafta's promoters. Instead, driven by a seemingly unlimited supply of cheap labour, it has emerged as an export base for cars, trucks and parts more swiftly and dramatically than anyone imagined.

As it happened, the circumstances were even more than usually difficult to foresee. Within a year of Nafta's signing, Mexico suffered a near-catastrophic financial crisis as the peso collapsed and foreign capital fled. Deep recession followed.

For the motor industry, there were two main consequences. The bottom fell out of the Mexican car market and any car made in Mexico was even more price-competitive as a result of the 40 per cent fall in the peso.

Mexican car factories closed their doors for "temporary stoppages". Sales for the sector as a whole fell 70 per cent – to the level of a quarter of a century before.



Before Nafta, the industry had estimated that domestic sales of cars and trucks would reach 1.2m by 2002 and that exports would still only account for a third of national vehicle output of about 2m. In 1995, domestic sales were a mere 185,000, while exports rose to 781,000. Sales in Mexico increased to 334,000 in 1996, while exports leapt to 975,000.

What had happened was that GM and other US motor manufacturers had fundamentally changed tack. By 1996, only a quarter of all the 263,000 cars and trucks GM made in Mexico were sold in the domestic market; the rest were exported, 98 per cent of them to the US, according to figures from Mexico's Auto Industry Association.

In two years, the US-Mexican motor trade had been transformed beyond all recognition. It could not have happened without Nafta, but it could not be put down to Nafta alone.

What could be attributed to Nafta, however, were some of the other things that came the way of GM. The most important was that it greatly benefited from the phasing out of a variety of Mexican decrees that forced US companies to manufacture in Mexico if they wanted to sell there.

Now, no longer forced to manufacture several models in Mexico to serve the local market, GM has focused on the production of two lines – a small, inexpensive Chevy and the five-seater Chevrolet Cavalier. The Chevy is not re-exported to the US, where it is unlikely to pass US safety and environmental standards, but it has helped GM take the lead in sales in Mexico for the first time in the company's history.

"GM has left Nissan and Volkswagen in the dust," said Mrs Wendy Needham, an analyst at Donaldson, Lufkin and Jenrette. "They have broader product lines and more flexibility about whether they run a plant down there or ship down."

While GM's total 1996 sales in Mexico of 96,000 units were still 17 per cent down on its 1994 figure, the fall was the least experienced by any of the big car manufacturers in Mexico. The company has been helped by the fact that in Mexico, the Chevy passes for a midrange car, while the bottom of the range Volkswagen Beetle that once dominated the market has seen its sales drop, because of the continuing financial straits of the country's lower-middle class.

"In Mexico, the crisis has hurt those who have least," said Mr Fausto Cuevas, head of Mexico's Auto Industry Association. "So while sales of the very cheapest cars are way down, luxury car sales have actually increased."

Other parts of GM's empire have also prospered in Mexico. The company's subsidiary, Delphi Automotive Systems, has been expanding rapidly. Almost $5bn in components cross the Rio Grande into Mexico each year to be used in the assembly or manufacture of Delphi components or systems. Most of these are sent back north.

The Mexican economy is now no longer in free fall.

This is the second in a series analysing the controversial trade pact in the run-up to the US Congress's review of Nafta on July 1. The first article appeared on June 6

The plummetting real wages, interest rates of more than 100 per cent and mounting unemployment that shattered the country's market in 1995 have retreated. In April vehicle production for the domestic market increased by 45 per cent compared with the same month a year before.

But wages are still too low, the burden of debt too heavy, and real interest rates too prohibitively high for a real recovery to occur in demand. Not until 2000 is the market expected to return to its 1994 level.

Henry Ford paid his workers enough so they could buy their own cars, thus assuring that he would have customers. GM's chief economist, Mr G Mustafa Mohatarem acknowledges that GM workers cannot afford even the small, polluting Chevy. In Mexico, with its huge hungry young labour force, the company has many more applicants for jobs than it can offer.

"GM generally pays above prevailing wages," said Mr Mohatarem. "You have to pay that country's wages with a slight premium to be sure you get the best workers." The prevailing wage for autoworkers in Mexico, however, has been estimated as low as 70 cents an hour, a level US union leaders allege has depressed incomes both sides of the border.

"If they don't (take advantage of cheap labour), then someone else will," said Mrs Needham. "That's just the way it goes."

Indian plan for imports rejected

By Khozem Merchant in New Delhi and Frances Williams in Geneva

India's main trading partners yesterday rejected as "unacceptable" New Delhi's proposals for removing controls on imports of consumer goods. This raises the prospect of a damaging stalemate in World Trade Organisation talks in Geneva due to end tonight.

The Indian plan envisages a phased elimination of controls on some 2,700 consumer goods over nine years. But the US, European Union, Japan and other industrialised WTO members are pressing for a phase-out within two to three years.

New Delhi's proposals, presented yesterday to the WTO's balance of payments committee, disappointed western trading partners who were hoping for a more robust commitment to dismantling trade barriers after half a century of protection.

EU officials describe the issue as the "single most important trade policy matter between Brussels and New Delhi" and say its apparent paralysis owes much to the "difficult internal processes within the [Indian] government".

The hardline Indian position is driven by communist elements of the coalition government led by Mr I.K. Gujral which remain hostile to foreign multinationals and to opening up the domestic consumer market.

Since Indian economic reforms began in 1991, so-called *swadesi* (economic nationalist) agitators have protested against the presence in India of Kentucky and McDonalds, the US food giants. Western officials say that if negotiations are inconclusive tonight they will "review all options, including appealing to the WTO complaints procedure".

Under WTO rules, the balance of payments committee is supposed to reach decisions by consensus, including India, which received support yesterday from such developing nations as Brazil, Egypt, Nigeria, Pakistan and Peru.

India has proposed removing curbs on 26 per cent of restricted products – mostly consumer and agricultural goods – by 2000, another 45 per cent after six years and the balance after nine years.

In the final phase are some "big ticket" items such as cars and a range of farm products including fruit, coffee, tea and grains where trading partners had hoped for decisive early action to open India's large domestic market.

The Indian press quoted government officials as saying that "since this is a matter with political dimensions and not just economic ones, Indian negotiators are not in a position to deviate".

India has consistently argued that the economy would not withstand the shock of a sudden influx of competitively priced foreign goods, even though in the early stages imports would comprise luxury items such as cosmetics.

But an IMF report published in January said India's balance of payments was healthy and with foreign exchange reserves of about $23bn, the country could no longer claim balance-of-payments weakness as an excuse for protecting its consumer markets.

Beginnings of a multi-billion dollar industry: Kitty Downes at her Shannon airport kiosk

Task force to fight Brussels plan for end of duty-free sales

By John Murray Brown in Dublin

Fifty years after Ms Kitty Downes opened the world's first duty-free kiosk at Ireland's Shannon Airport, the industry gathered on the same spot this week, to contemplate a more worrying development.

This was the possible end of its European business, in line with the European Commission's plans to extend the single market to this lucrative tax-free sector.

At an international conference, Mr Frank O'Connell, chairman of the Brussels-based International Duty Free Confederation, announced the launch of a special task force to lobby the Commission to reverse its threat to scrap duty-free sales within the Union by 1999.

The EU accounts for half world trade in duty-free. The confederation estimates 75 per cent of the $6.9bn worth of duty-free goods bought by travellers within the EU would have to go, the rest being sales to travellers in transit.

Mr O'Connell, who is also group commercial manager of Aer Rianta, Ireland's state owned airports authority, said indications of support had come from Sweden, Ireland, Luxembourg, Spain, Denmark, Belgium, Greece and the Dutch EU presidency. But the UK attitude would be "crucial" in resolving the issue, as it holds the presidency in the run-up to 1999.

"The Commission will not take any initiative to solve the problem, so we must build the necessary support in each member state," Mr O'Connell said.

Mr Alan Dukes, Irish transport minister, urged the Commission to reverse its plans, but said: "I am under no illusion this can be done easily. It can't."

Aer Rianta has recently diversified into new markets, announcing plans last month for five shops at Hong Kong's Chek Lap Kok airport.

It is now the world's second largest duty-free company, with operations in Moscow, St Petersburg, Kiev, Kuwait, Cyprus, Beirut and Damascus, as well as at both ends of the Channel Tunnel. The company relies on duty-free for a third of its I£231m ($343m) sales revenues.

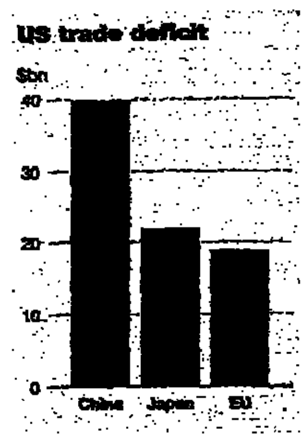
Mr O'Connell said the EU move would have a wider impact on jobs among ferry companies and airlines, and could be critical for some of the giftware companies and drinks concerns dependent on duty-free turnover.

Industry officials estimate 50,000 jobs could be lost in the ferry sector. Fares would have to go up an average 30 per cent to compensate; many routes could be closed.

A study by Cranfield University suggested loss of revenue to the airport authorities could result in landing charges rising 60 per cent, with the knock-on effect on ticket prices and passenger volumes. The impact would be most severe on charter airlines, dependent on on-board sales revenues.

Imports from China 'putting US jobs at risk'

By Nancy Dunne in Washington



US imports of high-value Chinese goods pose "looming dangers" to US jobs and businesses, the US Business and Industrial Council warned yesterday.

The council – representing 1,000 small and medium sized companies – said the growing tide of Chinese-made telecommunications equipment, electrical machinery and computers sold in the US were mostly the products of US multinationals.

China had also begun to accumulate large trade surpluses in industrial machinery, professional and scientific instruments, and pharmaceutical products.

This contrasts with the portrayal by large US companies of Chinese exports as low-value products no longer manufactured in the US because they require plenty of cheap labour to be competitive.

The council's report – "Made in China?" – is clearly designed as ammunition against renewal of China's Most Favoured Nation (MFN) status.

It argues that China's mercantilist trade policies are unlikely to make it a major market for US products, as MFN backers claim. It contains extensive data about the composition of US-China trade not to be found in the work of most mainstream Washington think-tanks which support MFN renewal.

It says toys, footwear and clothing still represent the largest share of China's exports to the US. But the fastest growing component of trade is now computer and office machines and parts, electrical machinery, audio and video recording devices and lighting fittings.

Although transport equipment – mostly aircraft – is the fastest growing US export to China, low-value products are playing a larger role too. These include oilseeds, animal feed and paperboard, and generate fewer jobs.

The US-China trade relationship contrasts sharply with that of Japan and the EU. They export more than the US to China – and a higher percentage of sophisticated manufactured goods – and import less.

While the US trade deficit with China last year hit $40bn, the Japanese deficit was $22bn and the EU's $19bn.

Singapore gets Aden contract

By Robin Allen in Dubai

The Port of Singapore Authority (PSA) has won a $187m contract to build six quays and a terminal on the north shore of Aden port next to Caltex island.

The turnkey contract, which includes engineering, procurement and construction of the transhipment container terminal, as well as dredging a 690m wide turning area, is due to be signed in London on June 17.

The contract has been awarded by Yemen Investment & Development International (Yeminvest), a Jeddah-based company owned by Saudi Arabia's Bin Mahfouz family, majority owners of National Commercial Bank, the country's largest in terms of assets.

Yeminvest has a 25-30 year build-own-operate-transfer concession agreement with the Yemen Free Zone Public Authority (YFZPA) to redevelop Aden's port.

Construction of the container terminal is the centrepiece of the $280m first stage of a $580m 25-year redevelopment scheme which aims to restore Aden's port as the region's primary container hub on routes from Europe to Asia. Yeminvest's three-phase redevelopment plan also constitutes Yemen's first overseas-led privatisation programme. Deadline for completion of the first phase is March 1999.

Other elements of the first stage include dredging the harbour, building a 15MW power station, and upgrading the existing Ma'alla terminal. The Netherlands' Royal Boskalis Westminster started dredging a 16-metre deep navigation channel last month.

Discussions on the power station and the Ma'alla terminal are "on-going", according to Mr Matthias Moser, senior associate director at Deutsche Morgan Grenfell, which is advising on project finance.

However, others have said the future of the Ma'alla terminal is uncertain because of a struggle between the YFZPA and the Yemen Ports Authority to act on behalf of the government.

Japanese win radio deal

By James Kynge in Singapore

WorldSpace, a US-based satellite radio broadcasting company, has awarded contracts to four leading Japanese electronics companies to make digital radios intended mainly for the developing world.

Mr Noah Samara, WorldSpace chairman, said Hitachi, Matsushita Electric Industrial, Sanyo Technosound, a subsidiary of Sanyo Electric, and Victor Company of Japan had agreed to mass produce the radios for what is expected to be the world's first satellite radio network.

"Our new Japanese partners are the world's consumer electronics leaders, and we are delighted they see the global market opportunities for satellite digital radio technology," Mr Samara said.

The four companies are promised exclusive rights to make the radios, initially costing about $150 each, for three years from 1998, when the first satellite, Afristar, is due to be launched.

The satellite is being built by Alcatel of France, and is targeted at Africa. It will be followed by AsiaStar and CaribStar, to be aimed at Latin America and the Caribbean.

A WorldSpace executive said the Japanese companies would be expected to start production well before Afristar's June 1998 launch date. Demand could be about 10m-15m radios a year in the first years of production.

But the potential is greater. By the time that all three satellites are operating, an estimated 4.6bn people will be living within their its "footprint", WorldSpace said.

Each of the portable radios will be able to receive more than 100 channels, including educational material and medical advice as well as pop music and news.

One problem is that the initial price of $150 may prove beyond the purchasing power of poorer Africans. But WorldSpace hopes prices will fall as mass production is achieved.

NEWS: THE AMERICAS

Setback for El Salvador telecoms sell-off

By Johanna Tuckman, Guatemala City

The resignation at the end of last week of the architect of El Salvador's privatisation programme has deepened the confusion now surrounding government plans to sell the state-owned telecoms network.

As State Modernization Commissioner since November 1995, Mr Alfredo Mena Lagos earned himself the reputation as the driving force behind the country's privatisation programme.

A new commissioner is not expected to be named before the end of this week.

Mr Mena Lagos resigned in protest against President Armando Calderon Sol's refusal to veto the recent repeal of the telecoms privatisation law by the legislature.

"We are running the serious risk of being left with a politically castrated government and that I believe is not good for the country," the businessman-turned-functionary told an audience on national television on Monday.

Bellsouth, Telia, GTE and France Télécom had already qualified to bid for 51 per cent of the state-owned company, Antel, in early 1997.

The original April target date for the sale had passed and government officials were still promising Antel would be on the market in July just days before the framework legislation was revoked on May 29.

"We had done 80 per cent or 90 per cent of the work of getting the company on the market and then the Legislative Assembly pulled the rug out from under us," says Mr Jim Allen from the investment bank Morgan Stanley, adviser on the sale.

All seven opposition parties voted in favour of repealing the law, leaving the 28 deputies from the ruling ARENA party isolated in the 80-seat legislature. Those same parties dominate the ad-hoc commission set up to elaborate a new privatisation law within a month.

The original plan consisted of awarding 51 per cent of Antel to one strategic investor, offering up to 10 per cent to telecoms workers and selling the remaining shares to private investors through the local stock market.

But sending the law back to the drawing board has been accompanied by increasing pressure from leftwing parties and the unions that the state should maintain at least 51 per cent.

But for Mr Federico Wynne of the Quetzal Fund, the BBV's Central America and Caribbean focused investment fund, "El Salvador is a country we plan to target and we see this as a momentary hiccup that does not affect long-term trends."

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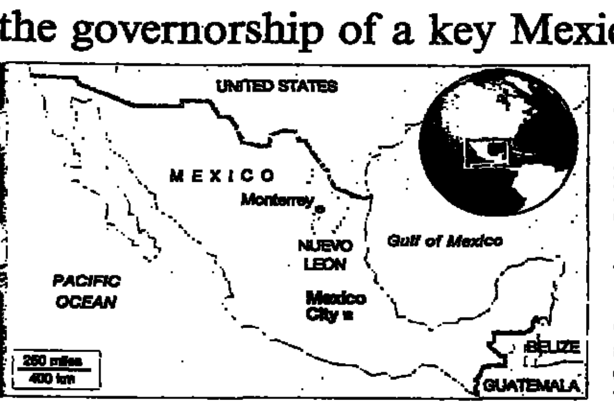
Millionaire's run stirs sleeping PRI

Leslie Crawford on the race for the governorship of a key Mexican state

A steel millionaire's bid to govern the industrial powerhouse of Nuevo León is threatening to unseat the ruling Institutional Revolutionary party (PRI) after 68 years of unbroken rule in the wealthiest state of northern Mexico.



The governorship race in Nuevo León, which will coincide with the mid-term congressional election on July 6, is of critical importance to the opposition National Action party (PAN). If Mr Fernando Canales, the businessman-turned-politician, takes Nuevo León, the PAN will govern three of the six states on the US-Mexican border, accentuating the political fault-line between the independent-minded north of the country and the PRI-controlled heartland.

When campaigning began in January, Mr Canales's victory looked like a foregone conclusion. The state capital Monterrey, home to Mexico's nine biggest industrial conglomerates, was heartily sick of the corruption scandals that dogged Mr Sócrates Rizzo, the former PRI governor. When Mr Rizzo resigned in shame last year, outrage grew after the government failed to press charges against him. Mr Rizzo is now completing a doctorate at Harvard, but in Monterrey, tolerance for exiles is thin.

As a result, Mr Canales entered the race with a 14-point lead over his strongest rival, Mr Natividad González, a career PRI politician sent from Mexico City to fight what many believed was a losing battle.

But Mr Canales has made mistakes. He took his victory for granted. He is prone to temper tantrums, and he has alienated Monterrey's fiercely independent press. When his six opponents published their income statements Mr Canales, whose steel group IMSA was recently floated on the New York stock exchange, at first declined to reveal his net worth. Mr Canales subsequently admitted to a fortune of about $100m. Nor have Monterrey's captains of industry, the real power brokers in Nuevo León, bestowed their unconditional blessing upon Mr Canales. According to one corporate leader, "Businessmen do not necessarily want one of their peers to govern Nuevo León. Some may feel more comfortable with a PRI governor, who is in a weaker position and may be more easily controlled."

Such is the discreet influence of Monterrey's industrial barons, that Mr Emilio Chuayffet, the powerful interior minister, is said to have paid a secret visit to Monterrey to sound out corporate opinion regarding Mr González, his under-secretary at the interior ministry. Mr Chuayffet was told that Mr González, who is married to the daughter of a Monterrey construction magnate, would be an acceptable candidate.

Mr González, a bespectacled, grey-suited model of moderation, personifies the PRI's uncanny ability to reinvent itself at every election. He has borrowed several ideas from President Bill Clinton's election campaigns in the US, and talks of "returning the government to the people", cutting red tape, and spending more on education. This is an important issue in Monterrey, a university town where a quarter of the electorate is under 25 years old. "We had to begin the campaign by recognising the PRI's mistakes," Mr González says. "There was corruption in the state government, and there was a lot of irritation with the economic crisis and the federal government."

This period of confession was suitably brief. Mr González is now highlighting the "assets" of his campaign, notably himself. The PRI is hardly mentioned in his speeches. "I have not hidden my links to the PRI, but neither have I emphasised them. The PRI's core vote in Nuevo León is small, perhaps no more than 14 per cent, so I have sought to broaden my appeal by playing down my party affiliation," Mr González says.

His distance from the ruling party is now being emulated by struggling PRI candidates throughout the country. In Mexico City, where Mr Cuauhtémoc Cárdenas of the leftwing Revolutionary Democratic party is the front-runner in the mayoralship race, the PRI's Mr Alfredo del Mazo has also chosen to run a highly personalised campaign.

Mr González has other factors working in his favour. The local economy is showing signs of recovery after the devastating 1995 recession; unemployment in Nuevo León has fallen to below 4 per cent; and the interim PRI governor, Mr Benjamín Clariond (a cousin of Mr Canales, the PAN candidate) has won respect for restoring administrative order.

To stamp out graft, Mr González is promising to create an independent auditing commission which will have the authority to scrutinise public spending and oversee public work tenders.

For all his modern polish, Mr González has not been averse to employing some of the PRI's favourite election ruses. PRI mayors in the state have suddenly become active in granting land titles to homeless families, while last month, El Norte, the leading Monterrey newspaper, denounced the existence of a PRI office which was "helping" prospective voters refinance their water and electricity debts. Mr Sergio Elías Gutiérrez, a public notary and former PRI activist, says: "I told Natividad at a dinner: 'Close down that rubbish. How can you project yourself as a modern politician with the same old corrupt practices going on?'"

Mr González's vote-wooing tactics, however, appear to be working. El Norte's June poll had him nudging ahead of Mr Canales with 38.8 per cent against 35.6 per cent for the PAN candidate. But with 19 per cent of the electorate still undecided, the battle for Nuevo León has clearly just begun.

Perceptions of race relations show wide gap

By Patti Waldmeir in Washington

Some elements of US racial prejudice have declined considerably since the civil rights movement of the 1960s, but there remains a large gap between black and white perceptions of race relations, says a Gallup poll published yesterday.

The poll sets the stage for President Bill Clinton's expected announcement this week of a new initiative to overcome racial divisions, part of his campaign to establish an historic legacy for his presidency.

The poll shows a dramatic change in white attitudes to racially mixed marriages, with 61 per cent of whites saying they approve of such unions today against only four per cent 40 years ago. Among blacks 77 per cent said they approved mixed race marriages. Figures for marriage licences appear to reflect the trend: unions between black men and white women have risen sharply, from 1.9 per cent of all marriages involving a black groom in 1970, to 8.9 per cent in 1993.

The poll shows other signs of declining prejudice. Almost all whites now say they would vote for a qualified black presidential candidate, though only 35 per cent expressed this view in 1958. This may reflect an unwillingness to express overtly racist views to pollsters, however. For though whites viewed themselves as having little or no personal racial prejudice, most said neighbours were less egalitarian. And blacks ascribed to whites higher levels of prejudice than whites admit to.

The poll shows that the gap between black and white perceptions of race is not being bridged. Nearly four fifths of whites feel blacks are not restricted in employment or education because of race, while half of blacks feel they are discriminated against in terms of jobs, and two thirds complain of unequal treatment in education. White attitudes reflect the backlash against affirmative action programmes.

The racial perception gap was highlighted earlier this week when a presidential task force released its report on church burnings. The force was set up after a sharp rise in church arson, mainly affecting black churches, raised fears of a new wave in racially motivated crime. But the report found no evidence of a racist conspiracy against black churches, adding that factors including personal profit, burglary and revenge motivated many of the crimes. Of 81 suspects arrested for arson of black churches, 26 were themselves non-white.

US court hits at kids' curfew

By Christopher Parkes in Los Angeles

The "schoolkids' curfew", one of the most favoured notions for controlling unruly US youth, has been ruled out of bounds in its birthplace, San Diego.

The Californian city's 50-year-old law, which makes it a crime for anyone under 18 to "loiter, idle, wander, stroll or play" in public after 10pm is unconstitutional, according to a federal appeals court.

The ruling that it is too vague and violates parents' rights to bring up their children without "undue interference" yesterday set city attorneys across the nation reviewing their own statutes.

Restrictions similar to those in San Diego, introduced in 1947 when the border town naval base enjoyed a less salubrious reputation than now, are in force in about 1,000 US cities, with about 10 per cent of the total in California alone.

President Bill Clinton spoke warmly in last year's election campaign of the merits of protecting children from the perils of the night by keeping them in.

While some lawyers suggested San Diego could reinstate its curfew by adjusting the ordinance's language, to allow constitutional rights such as attending political meetings, going to church ceremonies or concerts, the ruling seems likely to reopen the debate on the measure's effectiveness. Violators are typically arrested, finger-printed and photographed, and held by police until collected by their parents. Fines and community service orders are the usual penalties for repeat offenders.

San Diego officials say the number of youths arrested for violent crimes has fallen by 40 per cent since June 1994, when the city council dusted off its legislation and ordered the police to enforce it rigorously.

Outright victory eludes pro-European former chancellor in Conservative party contest

Clarke wins first round in leadership bid

By Robert Peston and John Kampfner

Mr Kenneth Clarke yesterday won an inconclusive victory in the first round of voting in the contest to succeed Mr John Major as leader of the opposition Conservative party.

The pro-European former chancellor of the exchequer, who is blamed by the Eurosceptic right for the party's heavy defeat in the general election on May 1, said that the breadth of his support among the surviving 164 MPs was much stronger than he "dared to expect" when the leadership campaign began five weeks ago.

He said last night that he intended to broaden his appeal by "setting out how I intend to lead this party on an inclusive basis". However, his supporters did little to hide their disappointment that his 49 votes left him 34 short of the overall majority required. "I can't see him pulling it off now," said one.

Mr William Hague, the 36-year-old former chief minister for Wales, is now in a strong position to win votes from Mr Clarke and the party's divided right wing, having come second with 41 votes. "It gives me a very good position to campaign for the second ballot on a platform to unite the party and give the party a fresh start," he said.

Meanwhile, the prospect of right-wing Conservative MPs rallying around a single challenger receded when their vote split comparatively evenly between Mr John Redwood, Mr Peter Lilley and Mr Michael Howard. Their respective tallies were 27, 24 and 23. The strongly Eurosceptic Mr Redwood resigned from the cabinet in 1995 to challenge Mr Major for the leadership. Mr Lilley was chief social security minister in the Major government and Mr Howard was home secretary.

The result showed that Tory MPs had not been swayed by an advisory ballot of constituency chairmen, European parliament members, lords and senior party workers, who have no formal role in the selection process but are stalwarts of the party outside the House of Commons.

This demonstrated a clear consensus for Mr Clarke to succeed Mr Major, with Mr Hague the second choice.

It was also striking that the party in the country gave only derisory backing to the three right-wing candidates.

Mr Redwood called on Mr Lilley and Mr Howard to withdraw from the race so that their supporters could coalesce behind him.

With some Tories seeking a lead from former prime minister Baroness Thatcher, her former press secretary, Sir Bernard Ingham, gave a surprising endorsement to the former chancellor of the exchequer.

"Kenneth Clarke is the most competent politician, and the one the public will most warm to," he said. "I have sneaking admiration for him."

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Premier aims to exploit business expertise

Tony Blair has found some unexpected recruits for government work, reports David Wighton

Drafted: (from left) Lord Simon, Geoffrey Robinson, Peter Davis and Martin Taylor accepted invitations from Tony Blair

When Mr Tony Blair, the prime minister, declared in opposition that Labour was a party of business, few thought he meant it so literally. Since taking office just over a month ago, Mr Blair has put business people into a number of government jobs and has promised that there are more to come.

One prominent businessman was even given a leading ministerial position, even though he was not a member of the Labour party.

Advisers say Mr Blair was impressed with the businessmen he met in opposition and wants to use what he sees as their ability to cope with complex managerial problems.

The highest-profile appointment so far has been of Sir David Simon, who as chairman of British Petroleum was one of the UK's most powerful businessmen. A committed pro-European, Sir David was persuaded by Mr Blair to give up BP to become a minister. The offer came with a promise to make Sir David a lord, giving him a seat in the House of Lords, the unelected upper House of Parliament.

Mr Blair originally proposed making Sir David minister for Europe within the Foreign Office, but the idea was blocked by Mr Robin Cook, the foreign secretary. Instead, he was appointed minister for trade and competitiveness in Europe, straddling the Treasury and the Department of Trade and Industry.

Lord Simon appears well-suited to the job; he has wide experience of Europe and an impressive command of languages. But the UK – unlike, for instance, France – has little tradition of movement between business and politics. Those who have made the switch have often found it difficult.

Lord Young, a property developer brought into the trade and industry department by Baroness Thatcher when she was prime minister, provides a recent example. He lacked any base in the Conservative party and subsequently admitted he had suffered a steady erosion of good will because of his isolation.

Another prominent former executive in the present government is Mr Geoffrey Robinson, a Labour MP since 1976 and a former chief executive of Jaguar cars. Mr Robinson is now a minister in the Treasury with responsibility for growth and the government's welfare-to-work programme.

Mr Blair has also called on a number of leading businessmen as part-time heads of task forces on particular policies. Mr Martin Taylor, the chief executive of the Barclays banking group, is to look at the way the welfare and tax systems interact to create disincentives.

A task force to advise on the implementation of the welfare-to-work programme will be led by Sir Peter Davis, chief executive of Prudential Corporation. Ironically, as the UK's biggest institutional investor, the Prudential will be the biggest casualty of the windfall tax on the privatised utilities because the tax will fund the programme.

Other businessmen drafted in include Mr Malcolm Bates, the former deputy managing director of the General Electric Company. He is close to completing a review of the private finance initiative, set up by the previous administration to attract private sector money into public sector projects.

Mr Alan Sugar, founder of Amstrad, the consumer electronics group, has offered to speak at a series of seminars for young people interested in business.

In addition to these non-political industrialists, Mr Blair has called on a number of Labour's prominent business supporters. Lord Hollick, chairman of United News & Media, is an part-time adviser at the industry department and Sir Terence Conran, the restaurateur and design guru, is to advise the government on how to foster good design.

But not all Mr Blair's offers have necessarily been accepted. The job of policy unit chief is thought to have been declined by Mr Adair Turner, director-general of the Confederation of British Industry, the biggest employers' lobby, and Mr Robert Ayling, chief executive of British Airways. The idea of getting a businessman to chair the Low Pay Commission, which will advise on the level of the proposed national minimum wage level, was also dropped. That, it was judged, would be taking Labour's new-found enthusiasm for business just a bit too far.

Industry urges modest tax rises

By Robert Chote, Economics Editor

The Bank of England, the UK central bank, is likely to raise UK interest rates above 7 per cent unless Mr Gordon Brown, the chancellor of the exchequer, restrains consumer spending by raising taxes in his budget on July 2, the Confederation of British Industry warned yesterday.

Mr Adair Turner, the CBI director general, said there was no need for big tax increases because public finances were "probably now on a sound medium-term footing". The employers' organisation argued for tax increases of £2bn ($3.3bn).

Improvements in the public sector borrowing requirement have seen the CBI reduce its original proposal for a tax rise of up to £8bn.

"With consumer spending set to grow strongly this year and next, some small action is needed to prevent inflationary pressures emerging," Mr Turner said.

"However, we are cautious about relying solely on interest rates to curb demand, since that could drive up sterling at a time when the high pound is already hurting the UK's export performance. A limited rise of up to £2bn would be preferable to further interest rate rises."

Ms Kate Barker, the CBI's chief economist, said base rates were likely to rise by half a point from their current 6.5 per cent even with a modest fiscal tightening. Without it, base rates "could rise to 7.5 per cent."

● Sir Bruce Pattullo, governor of the Bank of Scotland, yesterday warned Scotland against turning its back on the highly competitive UK economy by setting higher tax rates than in England.

He said that if the proposed Scottish parliament levied an extra 3p in the pound, it would mean "we are pulling the drawbridge up and saying we want to distance ourselves from that competitive world outside".

At the bank's annual meeting in Edinburgh, Sir Bruce said such an increase would be a self-inflicted wound which would have "a cumulative and corrosive adverse effect on the Scottish economy".

Private finance hospital programme cut

By Nicholas Timmins, Public Policy Editor

The number of big privately financed hospitals which the government is attempting to get under way is to be cut from 43 to between six and 10.

The move comes in a process of choosing priorities which brings a degree of 1970s-style planning back into capital spending in the state health service.

The move was announced yesterday by Mr Alan Milburn, the health minister, in an attempt to put back on course the failing private finance initiative, in which private funding is sought for public projects.

Projects will be tested first against the health service's strategic need for them and then for viability and the stage of negotiation reached. Those judged not able to be delivered within 18 months will be discontinued.

These will then be reconsidered and set in order of priority against hospitals competing for traditional – though shrinking – public capital.

Any deemed fundamentally sound could still proceed later under the PFI route "once the initial flagship schemes have built confidence and secured the market", Mr Milburn said.

He yesterday refused to indicate how many schemes would be given priority, although officials and some bankers believe that possibly as few as six would pass the initial test.

The move means that much of the public and private investment – amounting to tens of millions of pounds, with £30m ($48.9m) in the NHS alone – in drawing up PFI schemes will have been largely wasted.

But Mr Milburn made it clear the decision would mean the scheme should finally start to deliver. He told an audience of bankers, advisers and construction companies involved in the PFI that some "will be left disappointed". He preferred that to everyone being disappointed.

The Confederation of British Industry "applauded" the decision, although it urged ministers to reimburse shortlisted bidders on schemes which did not go ahead.

That would "help take the sting out of the exercise", it said.

The government faces "widespread resistance to the concept of private provision" in its attempts to reform the welfare state, according to a survey of consumer attitudes to insurance. Most people feel strongly that it is the responsibility of the state, rather than themselves, to provide financial cover during illness, unemployment, retirement and residential home care, Jean Eaglesham writes. "The message that people need to provide for themselves has been very slow to get through," says Ms Maeve Geraghty, associate director at the Henley Centre, the consultancy, which, together with insurer Swiss Re, today publishes a report on the findings. The survey, based on interviews with more than 1,500 people, did not find any evidence of support for a shift away from state provision. Consumers "doubt the acceptability" of the traditional insurers to act in partnership with the state, it says.

UK NEWS DIGEST

Narodny bank probes 'fraud'

Moscow Narodny Bank, the Russian-controlled UK bank, has begun legal proceedings after uncovering a £6m ($9.8m) potential fraud. Mr Derek Farmer, Narodny's general manager, said allegations involving a US customer with Ukrainian connections had been reported to the Bank of England, the UK central bank, and a report commissioned from external accountants. "As far as we're concerned, we have done everything that is required of us," he said.

Narodny said the account officer involved had been placed on paid leave as a standard procedure. "We have no reason to believe there has been internal collusion," said Mr Stewart MacFarlane, company secretary. The Russian central bank controls 88.9 per cent of Moscow Narodny, which was set up in London in 1919 and opened its first subsidiary in Moscow this year. Narodny's pretax profits increased from £30.5m in 1995 to £43.3m last year. It has shareholders' funds of £306.9m. *George Graham*

■ NORTHERN IRELAND

IRA says it fired at army patrol

The Irish Republican Army said yesterday that one of its "active service units" had attacked a British army patrol operating on the west bank of the River Foyle in the Northern Ireland city of Londonderry. The IRA made its claim in a statement to a local newspaper. The caller said that at least one member of the patrol had been wounded, but police said there were no reports of injuries. A number of shots were heard as the patrol passed along the Foyle Road, near the city's Roman Catholic Bogside area. A vehicle thought to have been hijacked and used in the attack was found abandoned nearby.

● Community workers in the Shankill Road district of Belfast, the Northern Ireland capital, are taking action to try to stem an upsurge in "punishment beatings" and shootings. A new group will attempt to mediate in a bid to stop the violent attacks, which they say cast serious doubt on the ceasefire by anti-nationalist "loyalist" paramilitary groups. Three men were treated yesterday for gunshot wounds after being "kneecapped" in a paramilitary attack in a "loyalist" area of the city. A 24-year-old man had a leg amputated last week after being shot by republican paramilitaries in the Markets area of the city.

■ CHANNEL TUNNEL

Shuttle operator to reserve space

Eurotunnel, which operates the Channel tunnel between England and France, is to reserve an average of half the places on its car shuttles for travellers who book in advance, overturning its previous "turn up and go" policy. The company introduced a booking system in the wake of last November's tunnel fire, when its capacity was restricted, but intends to maintain it now that it is back to full capacity, Mr Bill Dix, managing director of passenger shuttle operations, said yesterday.

This may mean that at peak times "turn up and go" passengers are not be able to obtain space but this would be limited to very few occasions, Mr Dix added. The company claimed 36 per cent of the Dover-Calais market in the first five months of the year and expects to increase this to 55 per cent by the end of 1997. *Charles Batchelor*

■ ANIMAL EXPORTS

Minister announces tough rules

Tougher rules against livestock hauliers who break welfare rules were announced yesterday by Mr Jack Cunningham, agriculture minister. From July 1 transporters will be obliged to use trained staff to handle animals. Ministers will have powers to disqualify serious or persistent offenders. Mr Cunningham said the government wanted exports of meat, already accounting for 80 per cent of the trade, to replace the transport of live animals for slaughter altogether. This would be good for animal welfare and for jobs in the UK slaughtering industry.

Live animal transport is a highly emotive public issue although protests have abated somewhat since calf exports, worth about £60m in 1995, were halted by the EU-wide ban on British beef in March 1996. Live exports are now predominantly in sheep, worth an estimated £23m this year, and high-value breeding sows, worth about £90m a year. *Alison Maitland*

■ ANTI-HUNTING BILL

Blair fears clash in parliament

Mr Tony Blair, the prime minister, has strongly urged Labour backbenchers not to bring forward legislation to ban hunting with hounds, fearing that the measure would provoke a dangerous clash with Conservative members of the House of Lords, the unelected upper House of Parliament. Mr Michael Foster, a Labour MP, is keen to bring forward an anti-hunting bill, which has strong support in the House of Commons and in the country. But the prime minister believes the measure is too controversial to push through early in the government's first term. "No matter what how much we want to ban hunting, we know that the Tories will pull out all the stops in the Lords to stop the bill," a government official said. *Liam Halligan*

LEGAL NOTICES

SUMITOMO LIFE REALTY (U.K.) LIMITED
Registered in England and Wales No. 2273682

NOTICE is hereby given, pursuant to the provisions of section 175 of the Companies Act 1985 ("the Act"), that:

(i) Sumitomo Life Realty (U.K.) Limited (the "Company") has approved by Special Resolution in writing a payment out of capital for the purpose of purchasing 5,000,000 Ordinary Shares of £10 each in its issued share capital;

(ii) the amount of the permissible capital payment for such shares is £50,000,000;

(iii) the statutory declaration of the directors of the Company and the auditors' report, both required by section 173 of the Act, are available for inspection by any member or creditor of the Company at the Company's registered office at 1 Angel Court, London EC2R 7HJ during normal business hours; and

(iv) any creditor of the Company is entitled at any time within the period of 5 weeks, commencing 4 June 1997, to apply to the Court under section 176 of the Act for an Order cancelling the resolution and prohibiting the payment.

[illegible] Birds,
Company Secretary
11th June 1997

Free internet issue to end soon

Online fees to start at Economist

By Nicholas Denton in London

The Economist will this Friday become the first mainstream publication from the UK to go against the culture of the internet and charge for access to its articles there.

The news weekly, which will continue to make about eight articles from each edition freely available on the internet, will give access to its entire content for an annual rate of $48.00.

Pearson, the media and information group that owns the Financial Times also owns 50 per cent of The Economist Group.

The online service, which includes a searchable archive of back issues starting in 1995 and classified advertising, is initially available without charge to subscribers to the print edition of The Economist.

The move by The Economist comes despite discouraging experience in the US, where some publications have sought to charge from the earliest feasible point and have lost online customers.

The most successful subscription site, apart from offerings from magazines such as Playboy, is the Wall Street Journal's interactive edition, for which it charges $49 a year with a discount for print customers.

The Wall Street Journal, which launched its subscription site last September, took eight months to attract 100,000 internet subscribers.

It estimates this is more than half the potential readership of a free service.

Some online publishers are charging for packages. LineOne, the joint venture between News International and British Telecommunications, charges £6.95 ($11.36) a month for content including titles such as The Sun.

However, the New York Times and Slate, the magazine set up by software giant Microsoft, both abandoned plans to charge subscriptions in the interest of building up readership and advertising revenues.

UK publishers will watch carefully the response of The Economist's 40,000 regular online readers, many of which the news magazine hopes will switch to the subscription service.

Subscription revenues are important if online publishers are to reduce their reliance on advertising revenues and to cover the costs of the electronic editions that most have set up since the internet took off in 1993.

"We don't give the Economist away in print, so I don't see why we should give it away on the web," said Mr Anthony Gottlieb, executive editor. "The internet can only benefit from collecting money rather than losing money."

He dismissed fears that the online edition would cannibalise sales of the print version. "If people are going to switch from print to on-screen, you have to make sure you are on screen for people to switch to."

Greater scope for TV sponsorship

By Raymond Snoddy

ITV, the main commercial terrestrial television network, is increasing opportunities to sponsor programmes, it told marketing directors yesterday. ITV executives said celebratory days such as Hallowe'en, New Year's Day and Christmas were now open for sponsorship.

It is also offering sponsorship for whole segments of programming, such as "daytime", aimed at women, and "nightime", aimed at young adults. The network is also looking for sponsors to be associated with themed weeks such as the forthcoming science fiction week, starting on June 21. ITV explained that the sponsor will be able to be associated with all types of programmes for the week.

Expansion of sponsorship is possible because of a relaxation of the rules of the Independent Television Commission, which oversees the independent television industry, although products cannot be displayed in the opening or closing credits.

Independent consultants Millward Brown International, which has been monitoring sponsorship on ITV since April 1995, said yesterday that for the first time it has been able to quantify sponsorship as being "as effective as spot advertising in generating TV presence for a brand".

School maths performance among worst in world

By Simon Targett, Education Correspondent

Big class sizes, lax homework regimes and an over reliance on calculators explain why children in England and Scotland perform so badly in mathematics, according to research to be published next month by the National Foundation for Educational Research.

The NFER, which surveyed more than 8,000 pupils in 134 schools as part of the biggest ever international education study, also suggests that teachers in England and Scotland could have lower expectations than those elsewhere.

The two countries are among the worst performers in the subject, according to a world league table published yesterday by the Third International Mathematics and Science Study.

The reputation of English schools is salvaged only slightly by the performance of pupils in science.

England is among the world's top performers, just behind South Korea, Japan, the US and the Czech Republic.

In a survey of maths tests for nine year olds, carried out in 26 countries, England fell below the international average in all categories except geometry and data representation, analysis and probability.

Of 17 countries which satisfied basic comparative criteria – such as sample participation rates, age specification and classroom sampling procedures – England came 10th, just behind Scotland.

Singapore topped the list, followed by South Korea and Japan. Also ahead of England were the Republic of Ireland, the US and Canada – which were outperformed by England during the previous international study six years ago – and Austria and the Netherlands.

Ms Wendy Keys of the NFER said England's international position had "deteriorated" in recent years.

She said there were "various factors" for the decline.

Ms Keys said teaching methods were a contributory factor, with 11 per cent of teachers teaching the whole class – as opposed to teaching children on an individual basis – compared with more than 60 per cent in Singapore, Japan and the Netherlands.

The research points to heavy use of calculators in the classroom. In England, more than half the pupils (53 per cent) used calculators at least once a week, whereas in Singapore and Japan, just 1 per cent did so.

Ms Key said the research showed that nine out of 10 pupils in England and Scotland think they do well in mathematics. She added that, in view of the countries' performance, "it could suggest that teachers are accepting standards lower than they should".

Maths teaching for children aged 9

	Lesson time (hours/week)	Average class size	% given homework once a week
Singapore	5.5	39	98
Japan	3.7	32	89
Netherlands	4.7	24	15
Hungary	3.3	22	99
US	4.2	24	94
Canada	4.4	24	75
Scotland	4.3	26	50
England	4.6	29	47

Source: National Foundation for Educational Research

Directors unfit to control investments, says judge

By Robert Wright in London

A High Court judge in London yesterday branded two directors of a foreign exchange investment company unfit to be directors or to control investments.

Mr Justice Lightman said contempts of court by Mr James Okarimia and Mr William Newton, directors of Global Foreign Exchange Corporation, warranted a jail sentence, although he had been persuaded imprisonment would serve no useful purpose.

He hoped the government's Department of Trade and Industry would listen to what he had said about the men's fitness to be directors.

The judge had heard evidence that one of the men had backdated letters to clients and that the company spent money from protected client accounts. Global, based in the City of London, offered foreign exchange investment schemes to mostly private investors.

The official receiver was appointed liquidator of Global on Monday, after an investigation by the Securities and Investments Board, the regulator, had established they were carrying on unauthorised investment business.

Global had failed to gain clearance from the Securities and Futures Authority to continue trading after a ruling that all companies offering foreign exchange investment schemes needed to seek authorisation by the end of February this year.

The judge said: "It seems to me clear on the evidence that the two directors have shown an inability and unwillingness to comply with the liquidator or court orders. They have not been averse to backdating letters and dishonesty or deliberate misappropriation of trust monies.

"It is quite clear to me they are totally unfit to be directors of companies or to have control over any monies or investments of third parties."

Global's present solicitors (lawyers) agreed to repay around £8,000 ($13,040) paid by Global from a protected client account back to one private investor, with the balance of the more than £14,418 lost by the investor repaid by Global's directors. An affidavit (deposition) sworn by SIB's solicitor, Mr David Capps, made available to the public under a court order, said that, when SIB investigated the state of Global's finances last month, there appeared to be a shortfall of $230,000 in what should have been protected client funds held by Global.

The affidavit also says that Origo Currency Management, a separate company to which the handling of client accounts was handed by Global, held far less client money than Global's directors had claimed to SIB.

Eagle Eye · Louise Kehoe

A private function

With so much personal information available via the web, consumer groups are pressing for greater security

Over the past year I have visited some pretty strange websites in the pursuit of information for the pink pages. I have delved into pornography to report on the Computer Decency Act, looked for patriot groups following the Oklahoma bombing and lately found my way to some dubious gambling sites.

After such visits I have come to expect a flurry of e-mail offering me related products or services. At first, I'll admit I was a little shocked. These days, I take a perverse pleasure in confusing those who would attempt to build a profile of my personal interests for marketing purposes.

The ability of website operators to track users' activities and match their findings with personal information gathered from registration forms is, however, of growing concern.

Washington has finally awakened to the issue of privacy on the internet. As usual, politicians and regulators are playing catch-up with technology. However, with hearings getting under way this week at the Federal Trade Commission, and several bills pending in Congress, the question of how detailed personal information gathered by websites should be protected is now on the front burner.

The commission hearings, in particular, have galvanised various interest groups into action.

Yesterday the Electronic Privacy Information Center, which advocates government regulation of privacy standards, released a survey of 100 popular websites which found nearly half collected personal information from users. Only eight gave users any control over how that information could be disseminated, and 23 use automated "cookies" – programs that plant information on a PC hard disk – to tag users so that they could be identified if they returned to the sites.

In contrast, software developers and website operators are generally opposed to laws or regulations that might put a crimp in their activities. Instead, they favour self-regulation.

Microsoft and Netscape Communications have each proposed technology solutions that would give web users greater control over the personal information they share.

Another layer of consumer protection may come from Trust E, a new industry group that aims to create a recognised seal of approval for websites. Only sites committed to strict privacy guidelines would get the seal.

These self-policing approaches would be good for business and for privacy, supporters maintain. Trust E points to a study by the Boston Consulting Group which found that electronic commerce would grow twice as fast if consumers' fears about internet privacy were erased.

One problem is that the bulk of revenues being generated by most websites come from advertising, rather than selling. While businesses offering goods and services to consumers over the internet may want to adhere to privacy guidelines, their advertisers are equally determined to gather as much information as possible about individual users

> I take a perverse pleasure in confusing those who would attempt to build a profile of my personal interests for marketing purposes

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Every time I get to my e-mail inbox there seem to be 20 new messages to respond to. So how do you make your message stand out from the list?

The latest ploy is to send an e-mail postcard, complete with graphics. For those who lack the time or artistic talent to create their own graphical greeting, Greet Street, which will open its website next week *(www.greetstreet.com)*, may be the answer.

In addition to holiday and special occasion cards, Greet Street will offer a selection of business-oriented graphical greetings. Some of the best feature the Dilbert cartoons that feature on so many Silicon Valley office walls.

Standard text e-mails are "sensory-impaired", says Tony Levitan, the co-founder and president of Greet Street, who prefers the title "creator of chaos". He is convinced that e-mail will evolve from plain text to "a more expressive medium" with graphics, video and sound.

At 50 cents a card, Greet Street's electronic postcards are an irresistible novelty – and a lifesaver if you have forgotten to send a birthday card, but will the idea last?

Seems to me it won't be long before most corporate e-mails carry the company logo, and personal greetings include a photo. Let's hope there will also be room for an original or funny graphic too.

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I've been sceptical about internet communities – the notion of creating common interest groups on the web. Last week, however, I found one that I wanted to join.

Mainspring *(www.mainspring.com)* is an internet site for people who are dealing with the challenges of establishing a business on the internet or building a corporate intranet. Mary Cronin, author of *Doing Business on the Internet* and a contributor to Mainspring, aims to have 100 case studies on the site by the end of the year.

So what is the most common mistake that businesses make when implementing internet technology? "Failing to integrate internal operations," says Cronin. "Each department has its own web activity, but often there is little co-ordination." Finding the right balance between distributed systems and centralised control is crucial, she says, and many companies go too far in one direction or the other.

Cronin is refreshingly frank in her approach to all things internet. "It is impossible for anybody to keep up – there are too many changes and too many areas of growth," she says. One of the most efficient, and least painful, ways for managers to get the latest information is by joining a group of their peers, she suggests. Executives from the companies Cronin has studied will join discussion groups to answer Mainspring members' questions about their operations.

After a four-month trial, Mainspring has attracted 4,000 members, at $500 a year. This may be a high subscription fee for a website, but its a small amount if it saves a few hours of a consultant's time.

Share your views on internet privacy issues in the Eagle Eye discussion group on the FT website (www.FT.com), or contact Louise Kehoe by e-mail on louise@FT.com

Information overload · Vanessa Houlder

Intelligent reading

Companies are looking at ways to cut down the mountains of information

Information overload is blighting many organisations. There is too much to read, too little time in which to read it, and no reliable way of working out what should take priority.

The blame must, in part, be pinned on the huge quantity of information that has become available electronically. But if technology is adding to the problem, it may also provide a solution. Organisations are experimenting with a number of tools, mostly based on artificial intelligence, in an attempt to lighten the load on their employees.

One such is Swiss Bank Corporation, which decided to address the problem after it monitored the readership of its own publications. Even though internal documents are a small fraction of the material demanding attention from its staff each day, it calculated that it would take several hours a day for its staff merely to keep up to date with its internal forecasts and reviews.

The response of its staff to being swamped with so much information was unsurprising: two-fifths of its publications were only read sporadically and a further two-fifths were hardly read at all.

These dismal findings encouraged SBC to explore a technical solution. It wanted to give staff a quick method of finding out what information is relevant to them; it wanted a way of delivering relevant information automatically to individuals; it also wanted to know which parts of which documents were best and least read.

SBC asked its financial information engineering group, a team of researchers based in Basle, to find a solution for its private banking section.

An obvious part of the solution was ensuring that all its documents were available electronically. This did not present difficulties since SBC was already putting many of its documents on to its intranet. The more difficult challenge was finding a method of indexing these documents that would allow the investment bankers to question and navigate the database quickly and easily.

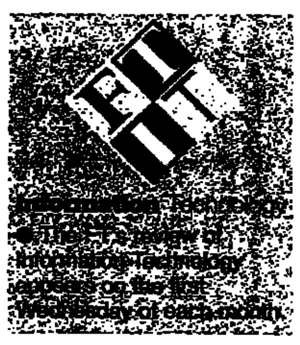
The approach chosen for this project, which was known as the "know-how pool project", was an artificial intelligence technique known as case-based reasoning. This technique makes use of an electronic database, which describes previous situations and the response to those situations. Presented with a new problem, the computer retrieves the most similar case and, if necessary, adapts it to suit the circumstance.

The first step in applying case-based reasoning was creating an index of the documents. SBC achieved this using the CBR2 generator tool, which was designed by Inference Corporation of El Segundo, California. This summarises each document in the form of keywords; it also lists a number of keywords that are best suited for distinguishing one document from another. When a document is published or updated, the index file is automatically updated overnight.

One of the attractions of the system is its flexibility. "CBR seems to be very easy to use," says Frank Block of SBC's financial information engineering group. For example, the user can type his or her request in ordinary language, such as "I would like to have information about private banking."

Another attraction is that it can cope with typing errors and it can find dates close to those specified. The system also has a "stemming algorithm", which allows it to match words that have the same stem.

The system, which has been developed both for a PC and for SBC's intranet, can help users define their interests. The user can select choices from seven boxes: region, currency, economy, branch, product, politics, strategy. The user can refine the search by answering a number of questions.



Information technology ● The FT's review of information technology appears on the first Wednesday of each month

The know-how pool project also makes use of intelligent agents – software that can autonomously perform specific tasks. One of these is a "news agent" that informs readers about new information according to their specified user profile.

Another agent that SBC is working on is a "document reading statistics agent", which counts how often and at what time documents are read. SBC expects it to yield quite detailed information, given that each document is split into chapters and subchapters. This would allow it to work out which sections are either read very frequently or not read at all. That could provide feedback to the authors about where they should provide more or less detail.

The pilot is being improved and extended, although Block is aware that it may be difficult to extend the operation throughout the organisation. The potential rewards – better investment decisions through faster and more accurate access to information – are high but hard to quantify. "It is very difficult to give precise numbers on the return on investment," he says.

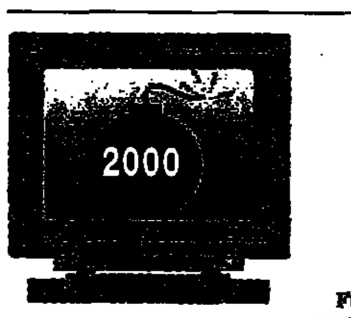
SBC is not alone in experimenting with CBR and agent technology for knowledge management. Halifax, the UK bank, used case-based reasoning to help its staff find the right information to deal with queries from members about products and shares in the run-up to its flotation. Boeing has co-developed the prototype of a "knowledgeable agent-oriented system" in a portable aid that provides training and support to customers on aircraft maintenance.

Organisations are using a range of approaches to help their employees find relevant information from an excess of data. Andersen Consulting, which tries to share knowledge between its 40,000 consultants across the world, has a repository of interfaces, or "knowledge maps", which helps users find their way to the most relevant of its hundreds of Lotus Notes databases.

Automatic filtering tools are also proving valuable. The Price Waterhouse World Technology Centre in California, for example, is experimenting with an information extraction system called Odie – on-demand information extractor – to extract relevant information from news wires. As a result, users receive information on just a handful of relevant appointments every week.

The researchers working on applying artificial intelligence to knowledge management are aware that the subject is at an early stage. The American Association for Artificial Intelligence recently noted that artificial intelligence was relevant to knowledge management, but commented that most existing tools cannot be applied to the task in their present form.

Nonetheless, there is cautious optimism from researchers in the field. "In our experience at Price Waterhouse, AI-based technology can play a key role in dealing with these difficulties in managing knowledge," says the PW team. SBC's Block is also upbeat about his company's pilot project. "We have a good starting point," he says.



Millennium Watch · Andrew Barstow

Golden opportunity

Businesses should be alert to the benefits of reorganising systems to cope with the problem

It is generally assumed that all chief executives and their senior management teams are aware of the year 2000 issue. What is difficult to assess is the extent to which they are tackling the problem and whether they can see beyond the short-term systems fix.

Organisations should be alert to the wider business opportunities presented by the issue. The short-term cost can, in theory at least, be offset against the long-term benefits of re-engineering business processes and systems together. This alignment ensures the best fit to meet the future needs of the business.

On this premise it is reasonable to assume that some organisations may already foresee changes to their markets that could alter their business processes and render some of their systems obsolete. With a clear insight into the future requirements – usually achieved with third party support – an organisation can accurately predict which of its systems will fall short of its future requirements, enabling it to remove them and avoid the cost of making short-lived alterations.

Further savings can be made by organisations that – by accident rather than design – use an inefficient and disparate range of old computers. The opportunity exists not only to develop new systems, but to scrap old computers and buy in hardware which is faster, cheaper, and arguably more reliable.

From the standpoint of an independent adviser, experience has shown that organisations perceive a complex programme of change ahead of them, an unwelcome challenge where accomplishment has to be absolute and the only desired outcome is survival.

This is clearly not the case, and working with clients using a proven methodology for planning and monitoring progress has helped them to realise the business opportunities now open to them, courtesy of the millennium.

Organisations should consider this checklist:

- Conduct detailed analysis of business processes and software applications, removing redundant systems and re-writing "critical" applications first. Some applications may be run by the operations department but in reality they are no longer used by people in the business. Some other systems could, for a short time at least, remain "non-compliant" because their impact is minimal – for example, systems which are used to generate internal reports.
- Identify clusters – where various systems with similar characteristics can be grouped together and then converted at the same time.

This approach can drastically simplify the overall plan, reducing testing requirements and therefore resources.

- Wherever possible, substitute old bespoke systems with modern general-purpose packages. These products can support specific processes at significantly lower cost and, more importantly, they are millennium-compliant.
- Replace obsolete and unsupported computers with new ones for easier maintenance and greater efficiency.

Management consultants at Ernst & Young aim to ensure their clients not only cope with the short-term demands of the millennium changeover but exploit the circumstances to realign systems and business processes together, adding demonstrable value to their business.

Dark ages: but many companies still use old, inefficient equipment

The author is a partner at Ernst & Young and head of its technology strategy and solutions consulting unit.

ARTS

Television/**Christopher Dunkley**

Missing the heart of the matter

A man in a forest scrambles purposefully up a steep rockface, scrabbles in a little pocket of earth, and digs up an old (though unconvincingly pristine) biscuit tin from which he produces birds' eggs, cigarette cards, and a penknife. Then, with a wobble in his voice and the hint of a tear in his eye, he begins to sing "Wimoweh" as he uses the penknife to whittle a stick. All together now: Aaaaahh! What is this? A Tribute To Dennis Potter? Well yes, in a way it seems that is just what it is. This is the climax to *Stone, Scissors, Paper* – the very title a reference to a playground game – the drama with which Richard Cameron won the first Dennis Potter Film Of The Year Award.

Though too long and too sentimental, this drama (Potter might have smiled wryly at that word "film" in the name of the award) was well acted by Juliet Stevenson as a battered wife, and Ken Stott as a bored and unfulfilled husband and monumental mason with whom she has a platonic affair. It was also produced to high professional standards. What is so irritating is that this sort of material reproduces the appearance of Potter's work without, it seems, much appreciation of what Potter was really about.

When the author of *The Singing Detective* showed us the boy in the tree in the Forest of Dean, squashing the ladybird, watching his mother make love with the Other Man, and dwelling obsessively on childish things, that was not a calculated appeal to the general consciousness of the public, not a cynical ploy to tug at our heartstrings. It was an attempt to do what artists in every medium have striven for ever since men scratched pictures by firelight on the walls of caves: to dig down inside themselves and express their consciousness, their humanity, in the hope that the revelation would make common cause with the onlooker. "Only connect!" said E.M. Forster.

There is all the difference in the world between searching your innermost self and giving as honest an account as possible of what you find there, and attempting to create for the sake of public entertainment more of whatever has proved in the past to be most appealing. It is the difference between the best of the European cinema tradition and the worst of Hollywood, the difference between good books and bad, between the great composer who is trying to show us his soul and the pop music industry which strains perpetually to repeat its last success. What is sad and a little frightening is that there does not seem to be anybody left in British television and, most worrying of all, anybody in BBC drama, who recognises the difference.

None of which is to suggest that popular entertainment is valueless, nor that it is all alike, although watching ITV's cynical approach to the nine o'clock drama slot in the last couple of years, you might wonder. Anybody wanting a quick illustration of the pop-repeat approach need only catch one episode of *The Man Who Made Husbands Jealous*, ITV's current Friday night nine-o'clock drama, which achieves the near impossible trick of consisting solely of surface material – big houses, fast cars, short skirts. It is hard to believe that a woman as witty as Jilly Cooper wrote it. Perhaps the adaptation is unkind.

But there is at present a remarkably large number of highly professional and entertaining drama serials around, most of them produced by the BBC. On Fridays BBC1 offers *Drovers' Gold* which must surely be the first Welsh cowboy drama. Writer Michael Chaplin has managed to incorporate just about every constituent of the classic American original: persecuted tenant farmers; the deserted wife (Geraldine James) with the loyal son standing in for his father; the cynical agent with a big hat who does the dirty work for the landowner; the actual cattle drive; the sheriff and his posse, played here by the bailiff and his men; the hold-up; the loss of everything including the herd in a poker game; even the genteel young lady in fancy clothes whose la-di-da ways dissolve when she falls for the horny-handed son of toil. Apart from a couple of Clint Eastwood classics, this is probably the best western made anywhere in the last 15 years.

Saturday brings *Jonathan Creek* (BBC1 again) which bears comparison with *Minder*. It combines crime and comedy, uses unconventional casting – stand-up comedian Alan Davies as the magician's assistant and sleuth, with sitcom actress Caroline Quentin as his companion – and, again, high production values. The plots, all, it seems, locked-room mysteries, are sheer nonsense, but the dialogue is often very funny; no great surprise, perhaps, given that the writer is David Renwick, creator of *One Foot In The Grave*. This week's episode was set in a house shared by its human inhabitants with a large number of apes, one of which had just eaten an entire thesis on subdural haematoma when the action began...

There are no fewer than three of these serials on Sundays. *Wokenwell*, with a splendid cast including Celia Imrie and Bryan Pringle, (ITV) seems to owe something to *Twin Peaks* and *Northern Exposure* in that small-town life is depicted with a super-realism that is continually undermined by the weird and wonderful. However, in the end the *Wokenwell* plots fight shy of genuine magic realism and opt for mundane resolutions. *Plotlands* (BBC1) is, oddly, another British version of a classic American genre: the homesteading movie. Here, though, the hostile landscape and threatening weather are in the suburbs of the English home counties. And *Born To Run*, the best of the three (also BBC1), is another helping of feminist triumphalism from Debbie Horsfield but with some very funny characters, even funnier situations, and hilarious lines. Billie Whitelaw stars as the repressed wife who discovers orgasms and marathon running at the age of 65.

There is much here to entertain us, and it would be churlish and silly to dismiss it for failing to sustain the ambition of the single play in British television drama between the 1960s and 1980s. That said, however, we do pay our licence fees to maintain the BBC and one of the purposes should surely be for it to set an example and keep others up to the mark. Whatever quantities of well made serial drama are produced there is no reason why the more complex ambitions of Dennis Potter and his ilk should be forgotten and abandoned. The Dennis Potter Film Of The Year Award may be aimed at reviving those ambitions, but it would be good next time to see more evidence of an appreciation of the grit and the risk characteristic of Potter's work.

Theatre

Baseball gets lift-off

Nobody talks about the importance of dance in musicals any more, but as this exuberant revival of *Damn Yankees* proves, you can dance your way to success. Even Jack O'Brien's astute direction cannot quite save the ludicrous Act 2 plot and some of the performances are not so much Broadway as downright broad, but the superbly energetic company could run a power station let alone a musical.

Richard Adler and Jerry Ross's reworking of the Faust legend tells the story of Joe, a middle-aged husband and baseball fanatic who dreams of his two-bit team winning the pennant and accidentally calls up the devil, who promises to transform him into a long-hitting legend who will inspire the team to victory in return for his soul. Cagey, faithful and square, Joe, however, is in real estate and knows all about escape clauses and manages to wrest one from the devil – who wanders around as sneaky but plausible Mr Applegate, complete with a nasty habit of setting fire to Douglas W. Schmidt's gorgeously satirical 1950s set, a riot of triangular lines and pastel shades.

So far so good, but even to someone who can't tell a bunt from a loaded base, the show achieves lift-off with the terrific baseball sequences showing off the team's terrible game. Rob Marshall's choreography is deeply indebted to Bob Fosse's original work and not just the elbows akimbo, knocked-kneed, jaunty hat stuff, but the boisterous athleticism too. Who can blame him? These big numbers don't belabour the plot, they fuel it. They aren't just a series of flashy moves, they have real shape and build. The guys launch into the defining number, "You've Gotta Have Heart" with its hoped-filled harmony line sailing over the cheery, sauntering melody and then suddenly we are in the middle of a hilariously staged sequence in the changing room.

The production gives in to star power in the middle of Jerry Lewis's act two solo show-off number and he stops dead to deliver 10 minutes of his vaudeville act, but elsewhere he laps up the opportunity to play it (relatively) straight, displaying a wicked urbanity as Applegate. Joe tells him, "there are more important things in life than being a hero". Lewis stretches and savours the moment before neatly despatching it with the retort "I'd love to embroider that on a needlepoint pillow".

In the three years it has taken for this revival to arrive it has grown brasher, busting a gut to give you a good time. You wish the cast would relax occasionally and allow the pathos back in. The over bright sound design doesn't help and the tempi are sometimes too driven, which drains them of charm. April Nixon as the temptress Lola has a strong voice and great legs but her "Whatever Lola Wants" seduction only impresses when it should induce heart failure.

Overall, there is too much "musical comedy acting" and not enough truth, but compared with the automated *Beauty and the Beast*, this is a triumph of energy over engineering.

David Benedict

At the Adelphi Theatre, London WC2.

Alastair Muir

Devilish: Jerry Lewis as Mr Applegate in a wonderfully energetic revival of 'Damn Yankees'

Ballet/**Clement Crisp**

Sweeties from Birmingham

Birmingham Royal Ballet has come to Covent Garden for a short season, and looked very sparky at Monday's opening. (Uncharitable thoughts suggest that this may be due to the fact that BRB is now separated from the Opera House.) Monday's triple bill ended with David Bintley's jazz romp, *The Nutcracker Sweeties*. As I reported at its premiere, Bintley's response to Duke Ellington's big band attack on *The Nutcracker* is ebullient, full of jokes, musically apt. The design – Peter J. Davison's jolly sets; Jasper Conran's equally jolly costumes – and the dancing are buoyant and clever. Chenca Williams and Joseph Cipolla steal the show as a deeply Spanish couple. The score is splendidly played under Paul Murphy – as was all the music of the evening. The whole affair is brash, and had the groundlings in a roar.

The programme also brought two works new this season. Neither won my heart. Oliver Hindle in *Bright Young Things* is entangled with Gershwin's flatulent piano concerto (Moritz Moszkowski in Times Square) and loses the bout, though the design by David Blight is stylish. Lila York's *Sanctum* is earnest about Our Mechanistic World, and involves a young man (the excellent Robert Parker) with a horde of automata. He finds peace – fleeing a great deal of robotic dancing and a grinding score by Christopher Rouse – with the same automata, now afflicted with pastel clothes and "lyrical" (i.e. bloodless) movement to the adagio from Ravel's G major piano concerto. Such misuse of Ravel merits a lengthy term in the Hulks. BRB's dancers work like demons in both pieces, and deserve far, far better.

Ten days ago the troupe showed what that "better" was in an evening at their home theatre. For the second year running, David Bintley has made it possible for his artists to try their hands at creating dances. So, on the night after English National Ballet unveiled its choreographic Great Auk at the Albert Hall, BRB proposed ten apprentice talents making steps, taking steps into the future. Everything was right about the occasion. A theatre packed with an audience eager to see what its own ballet company was doing. A top price of £10 for seats. An excellent choice of score: Mussorgsky's *Pictures at an Exhibition*. And young dancers given one or two of the pictures to realise in terms of today's world. It matters less that the new choreography was apprentice stuff than that the chance was there, in a theatre, with an audience, with lively design from students of the Birmingham School of Theatre Design. Among the aspirant creators I was most impressed by Jonathan Payn's bright-edged dances for the children in the Tuileries gardens and the ballet of the unhatched chicks: I hope to see his work at greater length. But the whole enterprise was vital. The air was keen. How different from the stale gusts emerging from certain other troupes. Hurrah for BRB.

Opera/**Richard Fairman**

Italian rarities in concert

When the classical record industry and enterprising small opera companies are exploring the backwaters of operatic history at a rate of knots, it is amazing to think there are any rarities left to discover. Two more in one weekend? It hardly seems possible, but London is still seething with activity.

The Royal Opera's Verdi festival continues to throw up much that is new and fascinating. (Whatever else the new chief executive Mary Allen does, she must ensure this ambitious festival gets her full support.) Premieres of the early Verdi operas are spaced out so there are several each year, although the most obscure get relegated to concert performances. In the case of *Oberto*, Verdi's first opera, this was less important, as Opera North has already staged the work in Britain, but two London concerts were a welcome opportunity to get to know it better.

Two were planned because the Royal Opera had hoped to have Samuel Ramey as the big draw in the title-role. But exhaustion kept him away and his place was taken by John Tomlinson, who had sung the role in Leeds, a dominating presence as ever, even if at the price of some heaving and lunging in the singing that was far from stylish. Elizabeth Connell is a true soprano these days and her Leonora shone at the top of the voice, while sounding disappointingly shallow lower down. Denyce Graves made a fine impression with her sultry mezzo in Cuniza's slow, lyrical music and fellow American, the tenor Stuart Neill, sang a passable Riccardo without the free top notes his role requires.

All round, not a cast to remember, and Simone Young failed to keep up the taut, rhythmical forward drive on which early Verdi thrives, despite moments of excitement from the Royal Opera orchestra and chorus. The interest of the evening was the chance to put in perspective how unapologetically forceful Verdi was in his musical inspiration from day one in comparison with the other Italian composers who were established at the time.

★

Donizetti was, of course, one of them, and it was interesting to go from *Oberto* to Chelsea Opera Group's concert performance of the latter's *Poliuto* at the Queen Elizabeth Hall on Sunday. This story of Christians thrown to the flames actually came almost ten years after Verdi's first opera, though one would not guess it. Brad Cohen's energising performance, with the COG orchestra and chorus on their sharpest form, had an early 19th-century surface brilliance, although it was none the worse for that. Donizetti was decently served by Penelope Walmsley-Clark's super-bright singing as Paolina, together with Terence Robertson a promising Poliuto and Roberto Salvatori a strong, if hollow-voiced, Severo.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● The Nude – Prints, drawings and photographs: nude figures have long appeared in scenes from the Bible and mythology. In this exhibition artists spanning five centuries give their individual interpretations of these figures: Adam and Eve, gods such as Mars and Venus, and many other heroes and saints; to Aug 3
Stedelijk Museum Tel: 31-20-5732911
● Nan Goldin I'll be your Mirror/ Photography 1972-1996: display of uncompromising diary pieces by the New York photographer, showing the underside of the city's glamour; from Jun 14 to Aug 17

■ BARCELONA

EXHIBITION
Fundació Antoni Tàpies Tel: 34-3-4870315
● Marcel Broodthaers Cinema: exhibition focusing on the role of film in the work of the Belgian artist who used the medium throughout his career as a device for questioning the nature of art, its function and contexts; to Jun 15

■ BERLIN

EXHIBITION
Museum für Ostasiatische Kunst Tel: 49-30-8301382
● Das Weisse Gold des Fernen Ostens: exhibition featuring 50 Chinese and Japanese blue-and-white porcelain pieces from public and private collections in Berlin. The porcelain was orginally imported in the 17th century by the Dutch East India Company and enthusiastically received by the European aristocracy; from Jun 12 to Nov 2

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Rigoletto: by Verdi. Conducted by Stefan Soltesz. Soloists include Valentin Prolat, Ingvar Wixell, Gwendolyn Bradley and Gerd Feldhoff; Jun 14

■ CHICAGO

EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Drawings Rediscovered: Italian Drawings Before 1600 in The Art Institute of Chicago: selection of 15th and 16th century drawings from the Museum's own collection. On display are works by Bandinelli, Bassano, di Cosimo, Pontormo and a recently identified piece by Raphael; to Jun 22

■ FRANKFURT

EXHIBITION
Schirn Kunsthalle Tel: 49-69-2998820
● George Heck: retrospective marking the 100th anniversary of the artist's birth. On show are a number of oil paintings, etchings, watercolours and woodcuts; to Jul 6

■ HAMBURG

CONCERT
Musikhalle Hamburg Tel: 49-40-346920
● Hamburger Symphoniker: with conductor Miguel Gómez-Martínez and violinist Stefan Czermak in works by Sibelius and Brahms. Part of Brahms Jahr 1997; Jun 15

■ LONDON

CONCERT
Barbican Centre Tel: 44-171 638 8891
● London Soloists Chamber Orchestra: with conductor David Josefowitz, clarinetist Fiona Ross, pianist Dmitry Rachmanov and the Holst Chamber Choir in works by Mozart and Beethoven; Jun 11

EXHIBITION
Whitechapel Art Gallery Tel: 44-171-5227888
● Krishna The Divine Lover: exhibition celebrating the Hindu god, bringing together over 120 miniatures dating from the 16th to the 18th centuries, featuring different events from Krishna's life story; to Jul 27

OPERA
Royal Festival Hall Tel: 44-171 960 4242
● Tannhäuser: by Wagner. Conducted by Paul Daniel, performed by Opera North. Soloists include Rita Cullis, Anne-Marie Owens and Jefferey Lawton; Jun 14

■ LYON

OPERA
Theatre Romain de Fourviere Tel: 33-0478959500
● Elektra: by Strauss. Conducted by Kent Nagano, performed by l'Opéra National de Lyon. Soloists include Eva Marton, Grace Bumbry and Jeannine Altmeyer; from Jun 14 to Jun 20;

■ NEW YORK

AUCTION
Sothebys Tel: 1-212-606-7000
● Comic Books and Comic Art: Sotheby's seventh annual sale of comic books and comic art features more than 700 lots, with highlights including the highly-coveted "Detective Comics" No.27, featuring the first appearance by Batman and original art for the cover of a 1942 edition of "Superman", the earliest known surviving example of a Superman comic cover to appear at auction; Jun 14

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Jean-Claude Pennetier: the pianist performs works by Schubert. Part of the Schubertiade; Jun 12

EXHIBITION
Musée du Louvre Tel: 33-1 40 20 50 50
● Un défi au goût – Chefs d'oeuvre de la manufacture de Sèvres au XVIIIème siècle: exhibition featuring 18th-century works from the famous French porcelain factory in Sèvre, which was at the height of its success around 1750; to Jun 23

■ PHILADELPHIA

DANCE
Philadelphia Museum of Art Tel: 1-215-763-8100
● Rodin and Michelangelo: A Study in Artistic Inspiration: exhibition featuring over 50 drawings and sculptures illustrating the influence of Michelangelo on the French sculptor; to Jun 22

■ STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-388 37 67 67
● Sinfonia Varsovia: with conductor Lord Yehudi Menuhin and pianist Bruno Leonardo Gelber; Jun 13

■ THE HAGUE

EXHIBITION
Mauritshuis Tel: 31-70-3023456
● Kunst op Vleugels: exhibition of Flemish, German and Dutch triptych works, including a piece by Dutch painter Gerard David ("Drieluik met de geboorte van Christus"), the three paintings that constitute the triptych being reunited for the first time since the 1930s; to Jun 22

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Orchestra of the Age of Enlightment: with conductor Sir Simon Rattle and clarinet-player Anthony Pay in works by Schubert, Mozart and Haydn; Jun 12
Musikverein Tel: 43-1-5058681
● RSO-Wien: with conductor Dennis Russel Davies in works by Beethoven; Jun 13

■ WASHINGTON

THEATRE
National Theatre Tel: 1-202-628-6161
● Chicago: by Bob Fosse and Fred Ebb. Music by John Kandler. Directed by Walter Bobbie; to Jul 5

■ ZURICH

CONCERT
Tonhalle Tel: 41-1-2063434
● Marek Janowski conducts the Tonhalle-Orchester in Beethoven's Symphony No.8; Jun 12

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Ian Davidson

Lunatic instability

Disarray over monetary union threatens to derail the intergovernmental process for reforming the EU treaty

The recent antics of the French and the Germans in the long-running saga of European economic and monetary union have been so bizarre that it is difficult to account for them in rational terms.

First, Mr Theo Waigel, German finance minister, tries to revalue the German gold reserves, as if to strengthen Germany's credibility for monetary union; of course, its only effect would instead have been to damage Germany's credibility.

Then, Mr Lionel Jospin comes to power in France demanding a raft of new conditions for monetary union, most of which must be anathema to Germany. But in Luxembourg this week his finance minister denies any intention of renegotiating the terms of Emu: all he wants is time in the next week or so to "study" the so-called stability pact for enforcing budgetary rigour in the planned single currency zone.

Since the terms of the stability pact have been known since last December, perhaps the new French government does not really know what it wants.

These erratic episodes can only spell bad news for the prospects that Emu can start plausibly and on time; but this new disarray over monetary union is now also poised to derail next week's European summit in Amsterdam, which was supposed to be the end-game of a quite separate process, the intergovernmental conference (IGC) for the reform of the European Union treaty.

Mr David Marsh, of the Robert Fleming investment bank, has suggested in the New Statesman that Franco-German behaviour can only be explained in irrational terms: Mr Jacques Chirac and Mr Helmut Kohl are so stressed out by the implications of Emu that subconsciously they want it to fail.

This idea, of Europsychosis, is amusing and provocative, but seems to me over the top. Mr Kohl is not the kind of fellow who easily succumbs to the vapours; and as regards Mr Chirac, and in politics generally, a more prosaic explanation is usually more plausible: stark incompetence.

For example: the new French government's demand that Italy (and Spain) should join the single currency in the first wave is unbelievably crass. When the member governments decide, next May, who qualifies for the first wave, the real question they will be asking is this: "Is France/Germany/Italy really and reliably committed to a culture of monetary stability?"

In the case of Germany, the answer is "Yes", even if this year's budget deficit were to turn out to be 4 per cent of GDP. In the case of Italy, the answer is equally obvious: "We do not yet know", even if the deficit were to come out below the magic 3 per cent.

You could argue that the turmoil is a logical consequence of past hypocrisy and errors. The Germans have been so reluctant to give up the D-Mark, and so frightened of the historic profligacy of their partners, that they insisted that Emu could only be constructed on principles that were authoritarian, undemocratic and deflationary.

Yet in Germany itself, the Bundesbank sets monetary policy against a background of national and democratic economic policy; and the same is true in other civilised countries. In the European Union, by contrast, the future European Central Bank (ECB) is supposed to set monetary policy in a virtual policy vacuum, as if it were sitting on Mars.

This is obviously a mixture of lunacy and hypocrisy. It must be asking for political trouble to launch an Emu whose *only* serious policy instrument is the anti-inflationary role of the ECB, especially with unemployment at record levels in France, Germany and Spain.

If Emu is ever launched, we can dismiss the infantile notion that it will operate happily and smoothly on auto-drive: it is the participating governments which will have to make it work. If it works badly, as all the Cassandras predict, then the governments will have to take responsibility for dealing with the problems. And when they do, they will have to start with article 103 of the European Union Treaty, which says that "member states. . . shall co-ordinate" their economic policies.

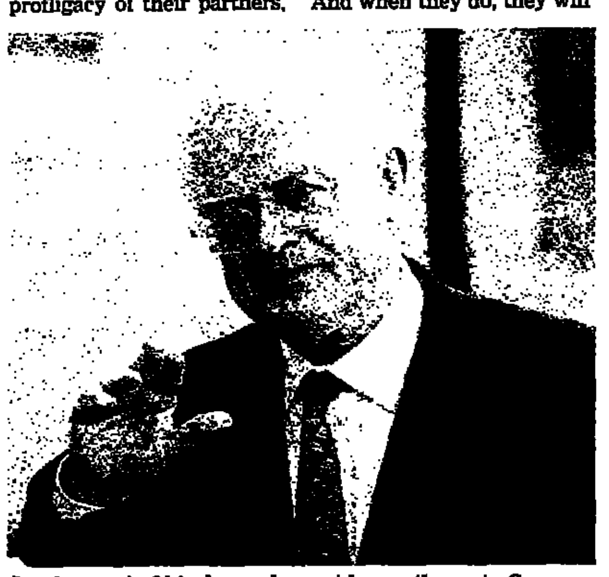
When the French talk of the need for an "economic government" in Europe, to promote growth and employment, the Germans run scared that Mr Jospin wants to debauch the single currency with unreconstructed Keynesian reflation. But for the Germans to pretend that they can solve the problem by *not* having any collective economic policy-making in Europe is just hypocrisy: especially since France's inflation record, over the past 10 years, has been as good as Germany's.

The problem is that, even if the French government is right on some of these questions of principle, the timing of its attempt to re-open long-suppressed issues is deeply disruptive. The Emu stability pact was supposed to be ratified at the Amsterdam summit; the French say they will not have finished "studying" it. They also say they want a new treaty protocol to article 103, which will detail how Europe should or could make its economic policy; obviously this protocol cannot be ready by next week.

Until this week, Europe's governments pretended to make an absolute distinction between Emu and the IGC. The Emu programme was signed and ratified, and was not on the negotiating table; the IGC was about quite different and quite separate treaty issues; and there was no connection between the two.

The French have now ensured that the two issues will be hopelessly confused. So if there is a smash, it will be an almighty smash.

The British, of course, will continue to do what they always do so well: sit on the sidelines and carp at the Europeans.



Jospin: most of his demands must be anathema to Germany

LETTERS TO THE EDITOR

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Trade and human rights needs global banner

From Professor Jean-Pierre Lehmann.

Sir, As one who spends a great deal of time in Asean (Association of South-east Asian Nations) countries and other parts of Asia, I often find myself cringing in embarrassment at the hectoring, sermonising and sanctimonious tone of western politicians and others. The effects are almost invariably counter productive, and indeed seem definitely to have been so, as you point out ("Asean's burden", June 3), in respect to Burma's admission to Asean.

One must not forget that to many Asian ears, terms such as "Western values" convey oppression and exploitation, rather than human rights. It is not that long ago that in the US rights were brutally denied to racial minorities, while the skeletons in European cupboards are too numerous to mention. Racism remains a fact of western life and one many Asians experience.

Avoiding sanctimonious sermonising should not, however, preclude us from having a genuine concern for those who are cruelly and arbitrarily victimised, as too many people continue to be in a number of Asian countries. Here again, though, one must be very careful which vehicle to put in use.

As Jagdish Bhagwati eloquently argues ("Short on trade vision", June 3), trade in general and the World Trade Organisation in particular should not be the means for Washington, or other western capitals, to push the human rights agenda. It is natural that such tactics should be seen in Asia as a protectionist ploy and the effects here, too, may end up being highly counter-productive, jeopardising the global trading system and the prosperity it has brought and further promises. There are many other organisations in Geneva (and elsewhere) where the human rights agenda may be more legitimately, hence effectively, presented.

The recently established dynamic relationship between America and Asia (through Apec) and between Europe and Asia (through Asem) represents undoubtedly one of the most promising scenarios for the decades ahead. Human rights is a crucial subject which must be addressed for the sake of current and future generations. This must be done in a sophisticated and truly global manner, rather than as a banner for western protectionism and cultural neo-colonialism.

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From Professor Philippe Sands.

Sir, I have no doubt that Professor Bhagwati was inspired by the best of motives in urging the new UK government to pursue human rights and environmental issues outside trade treaties ("Short on trade vision", June 3). The difficulty is the relevant treaties, and the institutional arrangements they create, do not operate in a vacuum.

Human rights, environment and trade are inevitably interconnected, and they need to be treated as such. Shunting each subject off into a separate treaty body solves nothing over the long term. This is precisely what has happened over the last 50 years. The result is that the international community is served by an ever increasing number of institutions competing for a piece of the action. Professor Bhagwati is prescribing further fragmentation, putting off today's conflicts for tomorrow.

There are two real problems. First, that there exists no international body charged with the task of balancing conflicts between these three subject areas, or integrating the standards each establishes into a coherent set of policy and legal arrangements. The second that there are too many treaties (and treaty bodies) operating in each of the three areas.

If the new UK foreign secretary really wants to grapple with these issues he should institute a thorough review of international institutions and treaties in the field of human rights, environment and trade. He might then come up with proposals to rationalise existing arrangements and ensure proper integration between the three areas. A good starting point is the German government's proposals for radically reforming international environment institutions, which is to be discussed at the G7 later this month and which, hopefully, the UK will be able to support.

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A dubious link with inflation

From Mr John Wells.

Sir, Robert Chote should perhaps not be too exercised over the subject of the Bank of England's accountability for meeting the objectives set for it ("Our mortgages in their hands", June 4). The French election results showed that voters will hold elected governments ultimately responsible for economic performance and punish parties which inflict excessive and unnecessary deflation.

The main problem lies surely with the objective set by the chancellor for the Bank: namely, the achievement of price stability (as defined by government) as its overriding task – albeit "without prejudice to this objective, to support the government's objectives for growth and employment".

Not only is the international evidence supporting a supposed relationship between central bank independence and low inflation open to much criticism – with "dependent" central banks, such as those of Japan and Australia, being as successful as those of Germany and New Zealand. But, there is no evidence that low inflation is statistically associated with faster and/or less variable output growth; still less that the former is a necessary precondition for the latter. On the contrary, Professor Robert Barro, while working at the Bank, showed that modest inflation (albeit in single digits) may be mildly beneficial for growth.

The conservative bias manifest in the Bank's recent track record can only add to our anxieties.

John Wells,
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Treaty has no answer

From Mr Raphael Papadopoulos.

Sir, Bernard Connolly's suggestion (Letters, June 6) that the way to change the 1999 Emu timetable inscribed in the Maastricht treaty is for the European Council to declare that no country has satisfied the necessary conditions, offers an insight into creative legal thinking of a type which, in terms of ingenuity and scope, appears to go beyond the creative accounting we have seen so far. Yet, unlike creative accounting, which may be accepted or rejected on merit, Mr Connolly's idea may hit a more serious snag. From what is public knowledge about the Maastricht treaty it appears the Council did not entertain the possibility of what Mr Connolly terms an "empty shell" third stage, at the time.

If this is so the treaty will not provide an answer as to what steps are to be taken in order to fulfil the political objective of filling the empty shell. The answer to this will almost certainly require political ingenuity which is far more demanding and less forthcoming.

Raphael Papadopoulos,
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The very poor need more choices

From Mr Peter Poore.

Sir, The article on the UN report on population trends, ("Birth rate down, hardship up", May 29), offers the global view that world population is not growing as fast as was feared.

This obscures the fact that in the poorest parts of the world, it is. The terrible toll on populations exacted by Aids and conflict cannot be allowed to allay fears of population growth among the very poor, particularly because both are a cause and an effect of poverty.

Save the Children welcomes the government's plans to improve the quality of overseas aid and investment so as to increase the British people's contribution towards alleviating poverty worldwide.

It is this poverty which is the reason why families have so few choices over the number of children they have, and why so many of their children, their mothers and their wives die.

Delivering contraceptives to people who are getting poorer is only one way to increase the choices they have over their family's size and their own development. It is not enough. The "unmet need" for family planning services is as real as the unmet need for food, clean water, education, healthcare, shelter and cash.

Peter Poore,
senior medical officer,
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17 Grove Lane,
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A doubtful calling for this minister

From Mr William B. Ferguson III.

Sir, I refer to Mr Stephens' column "With the fat cats" (June 6). It is doubtful that the national heritage secretary acted like a "Presbyterian prelate" (sic) when he summoned well-paid national lottery executives to his office, unless the counter Reformation has finally reached the halls of the general assembly. On the other hand, I am all for calling Mr Chris Smith himself before the session to explain his hypocrisy.

William B. Ferguson,
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Essential for Europe to have own defence industry

From Mr W. Van Eekelen, Mr E. Blanc, and Mr J.P. Rasquin.

Sir, The rapid restructuring of the US defence industry within the past few months has important implications for the nations of Europe and for European defence companies.

For political, technical and economic reasons, Europe should not become dependent upon third countries for the supply of defence equipment. It is therefore essential that Europe maintains a competitive defence industry as an integral part of its security structure, to support operationally capable military forces with high technology equipment at prices affordable by the European nations.

Today, the prime issue at stake is the survival of a world competitive European defence industrial and technology base through the establishment of a European domestic defence equipment market, the creation of a comprehensive European research and technology policy and the restructuring of the European defence industry.

At present the European defence equipment market is fragmented, with duplicated resources and over-capacity. This is a serious threat to the security integrity of the European nations and to the commercial competitiveness of the European defence industry.

A genuine European domestic market means co-operation between nations in the joint development of complex systems and the European sourcing of technology and production, backed by a comprehensive European technological policy based on a concept of economic security and interdependence between industries and between governments.

Transnational restructuring will require government support through action on such matters as common merger policies and taxation rules. The European defence industry has restructured significantly nationally but the results have not always been the best for Europe.

It is crucial that the intergovernmental conference reviewing the Maastricht treaty recognises that:

- The European defence technological and industrial base is a vital strategic asset and a pre-requisite for any genuine European security identity.
- A European domestic defence equipment market of sufficient size is needed as the base upon which the European defence industry can sustain its global effectiveness. Partner nations must accept industrial and technological interdependence as the norm to assist transnational restructuring.
- An effective defence industrial and technological base requires the identification of the critical technologies for Europe and investment in leading edge technology programmes to demonstrate their effectiveness.

The IGC report should clearly recommend that work on a European defence equipment policy should begin by encouraging the establishment of a genuinely operational European Armaments Agency within the Western European Armaments Organisation.

W. Van Eekelen,
former secretary-general of the Western European Union,
E. Blanc,
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FINANCIAL TIMES

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Wednesday June 11 1997

Tories in the fog

Any hopes that the deep fog of confusion hanging over the succession to Mr John Major would be dispelled by a decisive first ballot were dashed by the outcome of last night's count. The prospect now is for at least one, and probably two more rounds of voting before Conservative MPs choose a new leader. The risk is that the eventual outcome will satisfy no-one.

As predicted, Mr Kenneth Clarke, the shadow chancellor, came top of the poll with 49 of the 162 eligible votes. But his lead over his four rivals was much smaller than that suggested by an informal canvass of the party in the country. From grandees to grassroots, Conservatives outside Westminster gave an an overwhelming endorsement to Mr Clarke.

Appalled by the infighting over Europe, which cost the party the election, their judgment was that Mr Clarke was the candidate best equipped to mount an effective opposition to Mr Tony Blair's government. Their views were blithely ignored by two thirds of the MPs, many of whom cannot forgive the former chancellor for refusing to rule out a single European currency.

But if the Eurosceptic right succeeded in its ambition of frustrating Mr Clarke's hopes of an outright win, it did nothing to advance its own cause. The three-way split in its vote between Mr John Redwood, Mr Peter Lilley and Mr Michael Howard has left the sceptics without a credible candidate. With Mr Redwood just out in front, the other two face strong pressure to withdraw. But few believe that Mr Redwood can ever step up to the leadership.

That leaves Mr William Hague, the youthful former Welsh secretary, as the principal challenger to Mr Clarke. Although his tally of 41 votes fell short of the former chancellor's, many at Westminster now see him as the favourite.

While Mr Hague has been careful to temper his Euroscepticism during the campaign, presenting himself as the non-ideological candidate, he has never hidden his antipathy towards a single currency. The reasoning is that in a third-round run-off he would draw substantially more votes from the right than would Mr Clarke.

All such arithmetic is perilously speculative. What is evident, though, is the difficulty that Mr Hague would face if his chosen role as the unifying candidate does win him the leadership. An intelligent politician, he lacks the weight and experience to succeed where Mr Major so dismally failed.

That leaves the choice for Tory MPs between ideology and political revival. The sceptics can deny him Mr Clarke leadership but only at further great cost to the party's dismal standing. And one thing is clear from last night's result – Mr Clarke is not about to go away.

Handling Abuja

Africa's biggest single engineering project, the $4bn Nigeria Liquefied Natural Gas scheme, is in trouble. The decision by Mr Dan Etete, Nigeria's petroleum minister, to dissolve its board of directors, has undermined the confidence of his foreign partners. In spite of strenuous efforts to protect the project from political interference, that is precisely what seems to have happened.

Shell, Agip and Elf, the multinational investors, seem powerless to respond. "Least said, soonest mended," sums up their reaction. In the meantime, the project management has been ordered to report directly to the minister's office, and confidence in swift progress in building the huge LNG export terminal has been undermined.

Under any other circumstances, this high-handed approach should prompt a robust response. But western reaction is inhibited by uncertainty over just how to deal with the Nigerian military regime. That holds as true for business partners as it does for governments.

At the moment, the Nigerian government is heavily preoccupied with its efforts to reverse the military coup in Sierra Leone. Its intervention in its fellow west African state was a big mistake, irrespective of the admirable objective of restoring a civilian administration. Nigeria has no qualification for this task other than the military muscle that brought general Sani Abacha to power in 1993.

African nations have been wrong to give this action their blessing. The US, Britain and other members of the European Union should also object. By giving their tacit approval, they are sending a thoroughly muddled signal to Abuja: implicitly approving military intervention in Sierra Leone while considering sanctions which might help to bring about the return to democracy in Nigeria.

Until Mr Abacha has put his own house in order, Nigeria should not be allowed to play the role of regional policeman. The west must decide whether it intends to use serious sanctions – an oil embargo – to persuade him to revive his own democracy, or whether it can do so by persuasion. Certainly, the modest sanctions now imposed, a ban on arms sales, and visa restrictions on members of the regime itself, have had little if any effect.

It is a classic case of commercial interests having to be reconciled with a human rights agenda. Britain's new Labour government has brought this into focus as an important strand of its foreign policy. Like the oil multinationals, it wants to carry on doing business with Nigeria. Mr Abacha is not making it easy.

Slobodan's cash

Mr Slobodan Milosevic, the Serbian president, has just been thrown a financial lifeline by Stet, the Italian telecoms group, and OTE, its Greek counterpart. Between them the two companies have agreed to pay DM1.586bn for a 49 per cent stake in the telecoms business of Serbian PTT and a mobile telephone licence. At the insistence of Mr Milosevic, 80 per cent of the payment will be upfront and in cash.

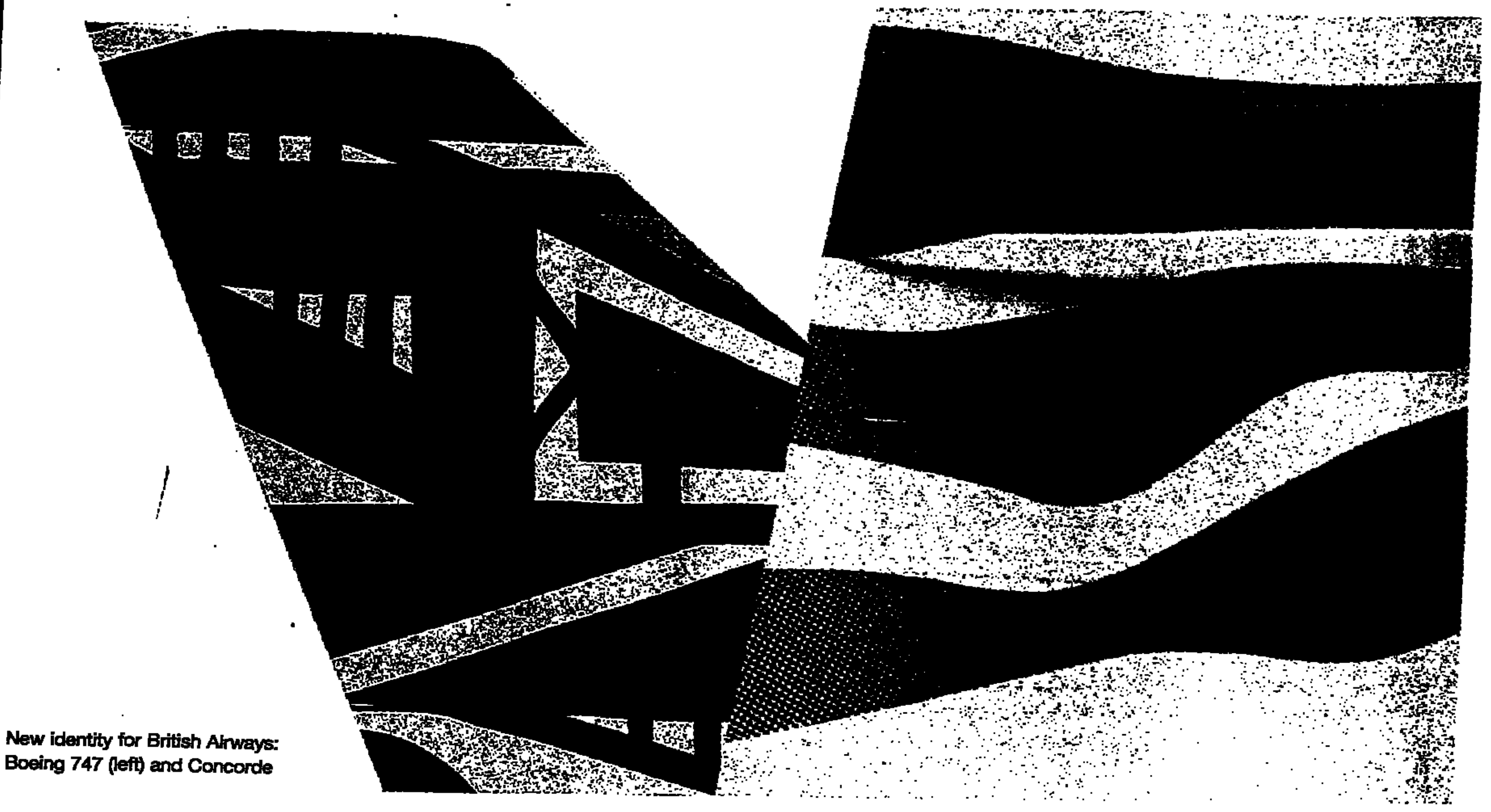
This is very good news for Mr Milosevic, who has been struggling to find a way out of the financial sanctions which exclude Belgrade from IMF membership and access to international capital. The US and EU countries insist these will remain in place until Serbia fulfils its obligations under the Dayton agreements, including the return of refugees to their homes and co-operation with the UN war crimes tribunal in The Hague.

Whether the deal will prove to be such good news for the two foreign telecoms companies or Serbian consumers is more doubtful. The agreement comes as Mr Milosevic, a consummate political operator who remains the most powerful politician in Serbia despite having led his country into international isolation and poverty, is preparing another complicated manoeuvre to keep himself in power. This entails switching his power base from the Serbian presidency to the presidency of the Yugoslav federation, a hitherto largely symbolic post.

To achieve his aim, Mr Milosevic has to find some means of paying the overdue wages of state and other employees whose votes will be essential. The money from the Greek and Italian telecoms companies will do very nicely.

Given the highly political nature of the deal, the Serbian leader's divided but vocal domestic opponents already accuse him of selling their "crown jewels" too cheaply. Such accusations are more likely to damage the foreign companies than Mr Milosevic. Having paid most of the money in advance, they have little leverage left if their new Serbian partner proves less compliant than hoped. This cannot be excluded, as the deal was done before introduction of Serbia's long-promised privatisation law and when much else remains opaque in the legal system.

Serbia desperately needs foreign capital and know-how, but its political leaders have yet to demonstrate their ability to emulate the economic and financial reforms which have enabled neighbouring Slovenia and Croatia to recover from war and re-establish their international credibility. For that, money alone is not enough.



New identity for British Airways: Boeing 747 (left) and Concorde

Flights of imagination

British Airways' change of livery reflects the growing use of design to stand out from the crowd, say **Alison Smith** and **Michael Skapinker**

The next time passengers board a British Airways aircraft they could see it adorned with a Kalahari bush painting or a calligraphy inspired by a Chinese tea ceremony. BA is getting rid of its sober blue and red livery and crest – with its motto "To fly, to serve" on the tail.

The new livery, to be introduced over the next three years, will include 50 different designs aimed at portraying the airline as British but modern: rooted in its UK heritage but at home wherever it travels.

But the publicity surrounding the launch, which has forced BA to deny suggestions it is dropping its "Britishness", raises questions about what large organisations gain when they seek new corporate identities.

The question is particularly pointed when, as in the case of BA – or British Telecommunications in the early 1990s – the task of establishing a new identity has not been forced on the company as a result of a merger or takeover but has been chosen deliberately, even in the knowledge that it will generate controversy at least initially.

BT decided it must change its image to mark its shift from UK monopoly to private sector company looking for business overseas. The £50m ($98m) image redesign included not just the introduction of a piper as its logo – criticised then for being lightweight and whimsical – but adoption of BT as its trading name.

For both BA and BT, the new identity was an outward sign of significant change within the organisation, heightening the contrast between the amount spent on a new image – £60m in the case of BA's changes including repainting the fleet – with the numbers of jobs to be lost.

At BA the new identity is part of the organisation's "second revolution", launched last year by Mr Robert Ayling, BA's chief executive, to prepare the airline for the next millennium. The first revolution, culminating in BA's privatisation in 1987, changed the airline from being a company criticised for its bad service to one of the world's most profitable and admired carriers.

Mr Ayling says the second transformation is necessary because BA has to compete in more liberalised markets, where low-cost carriers can offer cheaper fares. It also has to compete against new airline groupings, such as the Star Alliance, a six-airline partnership led by United Airlines of the US and Lufthansa of Germany, which unveiled a new logo last month.

As part of its programme for the new millennium, BA is cutting costs by putting out to contract services such as catering which can be done more cheaply by outside suppliers. But it is also offering monolingual cabin staff voluntary redundancy and replacing them with flight attendants who speak foreign languages and can deal with customers from a variety of backgrounds.

The new livery, the cost-cutting and the change in staff skills are all designed to show employees and customers that the airline is changing.

The company says it wants to persuade its customers that it is both "global and caring" and able to deliver service to passengers of any background.

"This identity should put clear blue sky between BA and its competitors," says Mr John Sorrell, the chairman of Newell and Sorrell, the London consultancy which designed the new livery.

On BA's instigation, Newell and Sorrell travelled the world talking to potters, weavers, quilt-makers and calligraphers in an attempt to come up with the right designs. The livery includes a paper-cut of a cockerel by Koguty Lowickie, a Polish artist who uses sheep shears to create her designs.

Another aircraft tail will be decorated by Whale Rider, a painted wood carving by Joe David of the Clayoquot people of north-west Canada, who spends days selecting his wood and "feels he is giving away part of his soul and spirit" whenever he lets a work go.

Another will carry the design Delftblue Daybreak, inspired by traditional Delft ceramics and created by Mr Hugo Kaagman, who began his career spraying graffiti in the centre of Amsterdam.

Mr Terence Conran, the UK restaurateur who has long championed more innovative corporate design, yesterday commended BA on its new livery. "It has charm, humour and the sort of style that is not usually associated with a huge multinational business," he said.

Mr Brian Boylan, chairman of Wolff Olins, a London-based design consultancy, says that services in sectors such as telecommunications are becoming more uniform, a compelling providers to seek ways of showing how they stand out from competitors.

As innovations, for example "billing per second", are copied more quickly it becomes harder to achieve lasting differences in the product itself. "You cannot sustain those differences, so you have to look at softer issues," he says.

He adds that businesses established in a particular field have been struck by the success of new competitors, entering from different sectors, which have won customers on the basis of their corporate reputation alone.

The entry of UK high street retailers Marks and Spencer and Sainsbury into financial services, and the emergence of Virgin as an entity based on Mr Richard Branson's personality while operating in areas as diverse as airlines, cola and financial services, are two recent examples.

These new competitive pressures have helped to change the corporate identity industry from its early days at the beginning of the 1960s. It emerged then in the US with the first wave of industrial conglomerates and at first focused on creating names and logos.

Mr John Rushworth, a director of Pentagram, the UK-based design consultancy, believes the corporate identity has evolved further since then. "In the 1960s and 1970s, designing a corporate identity was seen as a labelling exercise," he says. "But today a good identity is about understanding the essence of the brand or the company. It's not just a badge, it's a management mechanism."

Mr Sorrell sees another significant change. "The mantra of corporate identity of the last 30 years was to get high recognition and to be consistent," he says. "But high recognition is no good unless you are also liked."

Many large businesses still think in terms of a "monolithic" approach which is dominated by the need for consistency, he argues.

In taking this line they are missing the opportunity to present the diversity of their organisations, which would help them in communicating a sense of warmth and humanity to their customers.

"Most corporations are stuck with a very limited range of grammar to express themselves," he says. "Our use of artwork and photography has given BA a more varied tone of voice."

But there are limits to what a new corporate identity can achieve, no matter how varied its tone. While it signals the company's aspirations and intentions to both employees and those outside the organisation, customers' experience of the products and services it provides, and their own contacts with staff, will weigh more heavily in determining their attitude towards the business.

"An identity can't do it on its own," says Mr Boylan. He says that the lukewarm response to Pepsi-Cola's multi-million dollar launch last year of its new corporate colour – blue – shows the limitations of embarking on a new identity which does not reflect the qualities of the brand or company. "It was all colour, and no substance," he says.

The true test of whether a new corporate identity is worthwhile can only be seen after the initial flurry of press interest has died away.

Mr Charles Trevail, managing director of identity consultant Sampson Tyrrell, says there are three ways to judge whether a change in corporate identity has been effective: "Is there a stronger bond of loyalty between the company and its customers; does the share price go up; and do staff understand and believe in the new values of the company?"

BA says its staff, who were shown the new livery before its public launch, generally liked the designs. Whether they approve of BA's new corporate direction is another question.

Cargo and baggage staff have agreed to wage freezes as part of an agreement that will keep them inside BA. However, ground staff are being balloted on whether to take industrial action over the sale of BA's Heathrow catering operation.

Some in BA are pessimistic about the outcome of the ballot, saying they think staff will support their unions over the contracting-out programme. If they are to convince their workforce that BA needs to change, it will clearly take more than new tail designs from around the world.

· OBSERVER ·

Cat lover to clean up

■ Tokyo's financial analysts had to reach for their banking "who's whos" yesterday after Dai-Ichi Kangyo Bank, in pursuit of a new cleaner image after a scandal over links with corporate racketeers, appointed Katsuyuki Sugita, 54, as the youngest president of a major Japanese bank.

Sugita is almost unknown to the outside world, having spent 30 years at DKB, which is media-shy even by the demanding standards of Japanese banks. But a profile in DKB's magazine suggests he's more than just another faceless banker. For one thing he's a serious cat lover. It's not just that he keeps one, and shares their love of fish. He claims to understand what his feline friends are saying when they purr, miaow or howl – maybe a hint there for underlings trying to catch the boss's ear.

He also makes time for a sauna at least weekly, which should help with the "clean hands" image DKB's looking for.

Blanc expression

■ With his reputation as a man of the left, you might have thought cigar-smoking Air France chairman Christian Blanc would be one of the few French business leaders to welcome the Socialists' general election victory. But his position is a little more complicated. In a Paris Match interview, published just before Alain Juppé quit as premier, he put himself on the left ethically and the right economically and declared: "The policy that Alain Juppé is in the process of explaining to the country is the best adapted.".

Now Lionel Jospin's centre-left government may dash Blanc's hopes for early privatisation of Air France, which he has nursed back to something approaching financial health. Blanc might then be tempted to fly off to pastures new. Given his record, there should be no shortage of offers.

Staying put

■ Bank of America's acquisition of Robertson Stephens is sure to keep partners of the high-tech San Francisco investment bank happy. Not only will they be paid millions of dollars for their loyalty, if they manage to stick around for another three or four years, but they won't even have to move. They already occupy offices in BankAmerica's flagship building in San Francisco's financial district.

Deal-watchers in the rapidly-consolidating US investment banking industry might look hard at where moving costs would be low. For example, Chase Manhattan, rumoured to be in search of an equities business, is just across New York's Park Avenue from investment bank Donaldson, Lufkin & Jenrette. Also in mid-town Manhattan, Deutsche Morgan Grenfell, another potential buyer, shares its building with mergers and acquisitions boutique Wasserstein Perella.

Dry discussion

■ It's bad enough that arguments about the German budget are upsetting the financial markets, but now they're putting people off their beer. Brewers' association president Michael Dietzsch says consumption has dropped, partly because of "increased consumer uncertainty as a result of continuous discussion over tax and pension reform". In a less responsible country, endless debate about how to plug massive holes in the state coffers might drive people to drink.

Hommen away

■ After 19 years in Pittsburgh, Jan Hommen is back in his native Netherlands as chief financial officer at Philips. Giving up a similar role at Alcoa has meant not only swapping the US aluminium industry for European consumer electronics, but also crossing the US-Europe cultural divide, which isn't simple – even the second time.

"In the US, it's easier to get a decision made and implemented. Here we have a consultation structure," he says, adding quickly: "The delay is not bad if it results in better decisions." But 10 weeks into the job, he has got the often slow-moving Eindhoven HQ humming with a group-wide audit of its information technology needs – its IT budget is at least $1bn. Results are due by the end of the month, setting a pace of which Philips president Cor Boonstra, also a former US-based executive, is bound to approve.

Dolls ousted

■ US toymaker Mattel took an early lead in the political correctness stakes last month when it unveiled Share a Smile Becky, the first disabled Barbie doll. But Becky has hit a snag: she can't get her pink wheelchair through the door of Barbie's favourite doll's house. It seems that the Barbie Dream House violates the US law requiring buildings to make provisions for the handicapped. Mattel says it'll put Barbie right on her legal responsibilities.

The Financial Times

100 years ago

A Large Fund Of Humour
The Directors of the Native Guano Company appear to possess a large fund of native humour, for they announce that "they continue to have unabated confidence in its ultimate success". It was in 1869 that the company was registered, and no dividend has yet been paid, so it will be admitted that the board is a peculiarly cheerful body. The public appears to think that the success of the company will be very ultimate indeed, for the £5 shares, fully paid, are quoted at the striking figure of half-a-crown to seven and sixpence (£0.125-£0.375).

50 years ago

United States Of Europe
Washington, 10th June. Mr. Marshall, Secretary of State, to-day expressed general approval of a resolution to put Congress on record as favouring the creation of a United States of Europe within the framework of the United Nations. "The U.S. welcomes any initiative which may be taken by the peoples of Europe within the framework of the United Nations to ensure greater co-operation among themselves to expedite reconstruction and restoration of the economy of Europe."

FINANCIAL TIMES
Wednesday June 11 1997

BA warns delay may hit planned US link

By Michael Skapinker, Aerospace Correspondent

British Airways is likely to drop its proposed alliance with American Airlines if US and European regulators do not give it the go-ahead by November, Mr Robert Ayling, BA's chief executive said.

Mr Ayling said BA and American Airlines had not expected regulators to take so long to approve their alliance, which was announced a year ago today. The alliance envisages extensive co-operation and revenue sharing.

Mr Ayling said approval had been held up by US and UK elections. He hoped the alliance would still win approval from the US department of transportation, the UK government and the European Commission. He said warmer relations between the Commission and the UK government would help regulators reach agreement.

Mr Ayling said that BA wanted the deal approved by November, when take-off and landing slots will be allocated for the summer 1998 season. "After that it becomes more difficult. There comes a point in any transaction where not having approval is tantamount to being told 'no'," he said.

The UK Office of Fair Trading has recommended that the alliance be allowed to proceed if the two airlines give up 168 weekly slots, or 12 round trips a day, at London's Heathrow airport. Mrs Margaret Beckett, trade and industry secretary, will make the final decision for the UK government.

The General Accounting Office, the investigative arm of the US legislature, said last week that other US carriers should be entitled to an extra 23 round trips a day at London's Heathrow airport.

Mr Robert Crandall, American's chairman, said yesterday the two airlines were encouraged by the GAO's report because it did not suggest all the extra slots should come from BA and American. Other US airlines could win under-used slots or obtain them from their European partners.

Mr Crandall said the two airlines would not go ahead with their alliance if they were forced to give up more slots than the OFT recommended.

Mr Crandall said that if the alliance was not approved, American and BA would still co-operate. They could service each other's aircraft and have a code-sharing arrangement, selling seats on each other's flights. They could also combine corporate credit cards and frequent flyer programmes.

The two airlines say the recent formation of the Star Alliance, headed by Lufthansa of Germany and United Airlines of the US, strengthened their case to go ahead.

Flights of fancy, Page 13

Beijing's troops demand opens new HK rift

By John Ridding in Hong Kong

China is pressing for armed troops to be stationed in Hong Kong before the transfer of sovereignty at midnight on June 30, threatening a new dispute with Britain.

The call comes amid controversy over arrangements for the handover ceremony and a warning yesterday from Mr Chris Patten, governor of Hong Kong, that other countries might follow the US and boycott the swearing-in of a Beijing-backed legislature.

According to an editorial in the Hong Kong daily Wen Wei Po, a mouthpiece for Beijing, the military handover should not take place at the border control but in the garrison troops' barracks.

It said the mainland garrison would need more than two hours to travel from the border to its barracks and demanded that Britain should arrange traffic and security measures to allow this.

The newspaper said that Britain would not allow People's Liberation Army troops "to be armed and ready to take up their duties at zero hour. This is totally unreasonable and violates international defence handover practice".

The editorial hinted that if Britain failed to meet China's request, Beijing would not co-operate with British plans to withdraw its garrison in the hours after the midnight transfer of sovereignty.

Beijing's stance appears to be linked to the presence of senior Chinese leaders, expected to include President Jiang Zemin, for the handover ceremonies.

The new demand could reopen a dispute over the presence of armed military personnel ahead of the handover, which seemed to have been settled after the UK agreed that China could station an unarmed advanced guard in the territory to prepare for the transfer.

"Ministers are committed to working with China to ensure a smooth and successful transition but there is no question of Britain agreeing to the deployment of the main People's Liberation Army garrison in Hong Kong before July 1," a Foreign office spokesman said in London.

Arrangements for the ceremonies have also been shaken by a dispute over plans to swear in the provisional legislature, along with the new government, in the early hours of July 1.

The US, like Britain, wants to avoid endorsing the Beijing-backed body, which will replace the existing elected legislature.

Tung pledge, Page 4

THE LEX COLUMN

Dollar danger

Is the US going back to the bad old days of dollar bashing? Senior officials have stopped short of explicitly bad-mouthing the greenback, but incessant expressions of concern about Japan's rising trade surplus with the US, against a backdrop of a sharply weaker dollar, come perilously close to the same thing. The US may seem to have a case for complaining; after all, Japan's surplus with the US has risen for seven months in a row. But it is not a case that stands up to much examination, and the solution the US is advocating – stimulating domestic demand – is likely only to aggravate Japan's problems.

For starters, the surplus is currently around $4bn a month, well short of the $6bn monthly figures which brought trade tensions to a head in 1994. And given the relative states of demand in the US and Japanese economies, it is hardly a surprising state of affairs. Anyway, given its own obsession with a balanced budget, the US is hardly in a position to lecture Japan about stimulating demand. With the worst budget deficit in the G7 group and a debt/GDP ratio on the scale of Italy and Belgium, it is quite right that Japan should be trying to rein in government spending.

Instead of grandstanding to domestic political audiences, the Clinton administration would do better to concentrate on what matters – improved overall access to the Japanese market, and continued deregulation. Certainly, there will be no quick fixes and, yes, Japan starts from a low base. But import penetration has improved considerably, and the Big Bang in financial services is evidence of a gathering deregulation bandwagon. Apart from being wrong-headed, the US's current approach also risks pushing an already jittery market into an avalanche of dollar selling.

Eurotrack 200 index
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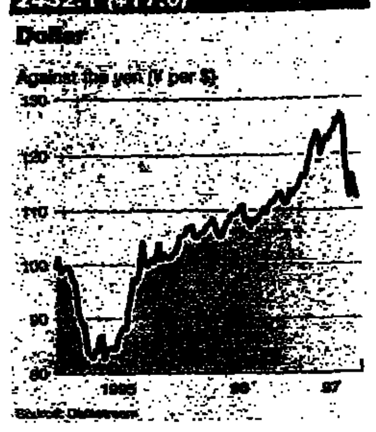


Stet

Stet, the Italian telecoms group, is like an old maid rushing around buying expensive baubles in a vain attempt to make herself attractive to suitors. Yesterday's bid for Retevision, Spain's second telecoms group, was pitched 39 per cent higher than the rival bid. On Monday, Stet bought 29 per cent of Serb Telecom. The price equates to around 5.7 times operating cash flow – a chunky multiple given Serbia's high risk status. The Italian group seems worried it will be left on the shelf in the whirlwind of global telecoms matchmaking unless it can supply a handsome international dowry. Hence, April's purchase of a 25 per cent stake in Mobilkom, an Austrian mobile group, at a premium around 50 per cent more than analysts think it is worth. Hence last year's investment, again at a premium, in Bouygues Decaux Telecom, the also-ran of French telecoms.

These investments are most unlikely to dazzle would-be partners. The real attraction of Stet to any global alliance is its dominant position in Italy. BT's Concert or Global One, the Deutsche Telekom/France Telecom partnership, would be delighted to sign the company up as its local distributor. If anything, the more assets Stet owns outside Italy, the more conflicts of interest it will present to potential allies and the harder it could be to embrace. Stet should put its extravagant tastes behind it, recognise that its virtues are solid domesticity and recycle its prodigious cash flow to shareholders.

Renault

If any normal company were to stake its reputation on the overriding need to close a car plant, only to turn around months later and commission an independent study into alternatives, heads would surely roll. But Renault is no ordinary company. It is a French national symbol, half state-owned and chaired by the former chief of staff to a Socialist prime minister. Its deference to France's new political mood, therefore, perhaps deserves to be met with a Gallic shrug. Conceivably, the study could explode in the company's face. But with luck, it will prove a formality, vindicating Renault's decision while letting the government argue that it forced the issue to be double-checked.

Nevertheless, the episode is a powerful reminder that the new French government expects business to play by different rules. Renault may well end up dispensing with large numbers of Belgian jobs. But after yesterday's humiliation, it is difficult to imagine the management tackling the problems of its French operations with much relish. International investors should make no mistake; restructuring will still occur under France's new regime, but it is going to be a slow and painfully tactful business.

Energy Group

And then there was one. The US appetite for British energy continues unabated. PacifiCorp's proposed bid for Energy Group will leave only one freestanding English regional electricity company, Southern Electric. It must be feeling somewhat exposed.

Energy Group, the former Hanson combination of Eastern Energy and Peabody Coal, is an unlikely bid victim. PacifiCorp cannot gear up Energy's balance sheet to fund the bid – Hanson got there first, loading it with £1.4bn of debt. At least Peabody is less of a poison pill to PacifiCorp than other utilities, since the US company has an existing coal business. But Energy Group is about to get hit by a UK windfall tax and PacifiCorp looks unlikely to squeeze out anything in the way of operational improvements. Of course, Energy Group brings with it strong management and offers electricity trading expertise, which will be useful after US electricity deregulation – but it would have been a lot cheaper to poach a few key employees.

Nonetheless, it is also surprising that Energy Group seems so keen to accept a bid. It has only just won its freedom and its management has plenty of plans, albeit of questionable value. Moreover, the premium being suggested is not hugely generous. Mr Derek Bonham, chairman, can at least show some value springing from the Hanson demerger. But even if Energy is bought out at 700p, the bits of Hanson are still worth 16 per cent less than in February 1995, when it announced the first of its four demergers.

See additional Lex comment on UK Conservatives, Page 21

French face Emu clash

Continued from Page 1

stressed the need for measures to boost employment.

President Chirac played down his differences with the new government, saying that its emphasis on social issues, including job creation, was an approach for which he had argued over the past two years. The EU's chances of removing the obstacles that are hindering a smooth progress to monetary union may depend heavily on the outcome of talks in Poitiers, France, on Friday between Mr Kohl, Mr Chirac and Mr Jospin.

Energy Group takeover talks

Continued from Page 1

sector. Eastern controls 10 per cent of electricity generation in England and Wales and, through its bidding in the wholesale market, is responsible for setting electricity prices 20 per cent of the time. It also owns the biggest distribution company in the UK, serving 3m customers.

If the bid proceeds, Eastern would be the eighth of 12 privatised UK electricity companies acquired by US interests, taking US investment in the UK power sector to £11.4bn.

PacifiCorp has a stated aim of owning 25 per cent of world electricity generation. Analysts forecast it will make $488m in the current year.

It has a market capitalisation of $5.9bn.

One analyst said last night that Energy Group was seen as a natural fit for PacifiCorp.

US Cuba move risks reviving row with Europe

By Nancy Dunne in Washington and Sander Thoenes in Brussels

The US House of Representatives was yesterday poised to pass a controversial measure to reinforce the Helms-Burton anti-Cuba law.

The House was due to vote on a measure which would put pressure on the State Department to bar more foreign executives of companies investing in Cuba from entering the US.

If the measure passes the Senate, the truce between the US and the EU, which averted a damaging trade dispute over Helms-Burton in April, will be in danger of coming apart.

So far the US has only barred executives from two companies, one Mexican and one Canadian. No European executives have been refused entry and supporters of the Helms-Burton law suspect the US is avoiding sanctions against European companies while it negotiates a final compromise on investment in Cuba with the EU.

Congresswoman Ileana Ros-Lehtinen, a Cuban-American from Florida, said she had introduced the new measure to show the EU that Congress would not let President Bill Clinton's administration ease the Helms-Burton legislation.

"The timing, of course, is very provocative," said Mrs Erica Mann, a member of the European Parliament responsible for US relations. Representatives of Sir Leon Brittan, the EU trade commissioner, and Mr Stuart Eizenstat, US under-secretary of state for economic affairs, are due to meet next week for talks following up the April accord.

The EU suspended its complaint against Helms-Burton in the World Trade Organisation after the US and the EU agreed to seek a bilateral agreement to constrain companies from "trafficking in illegally expropriated" foreign assets in Cuba.

"The ball is rather in the American court," a European Commission official said yesterday. "There are ways for the US government to defuse this. We have yet to get indications that there are determinations against European companies in the pipeline. That would clearly endanger the agreement. We might reopen the WTO case. That should act as a deterrent."

If the US and EU reach a bilateral agreement, the Clinton administration has promised to ask Congress to weaken the part of the Helms-Burton act which requires the US to deny entry visas to executives, directors and their families, and shareholders of foreign companies investing in Cuba.

Canada and Jamaica have defied US pressure and strengthened economic ties with Cuba. In April, France, one of Cuba's biggest EU trading partners, sent a business delegation which pledged to boost investments.

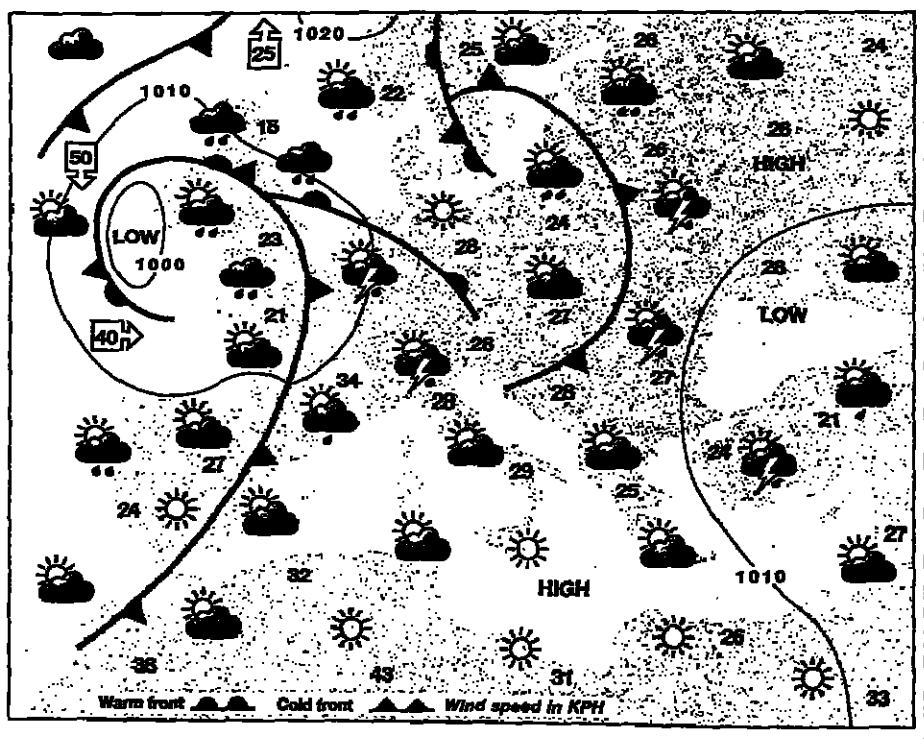
FT WEATHER GUIDE

Europe today

It will be wet over most of the British Isles.
The Benelux will have rain and thunder showers. Northern France will have showers, but the south will be mainly dry with sunny periods.
The Iberian peninsula will have plenty of sunshine, but it will be showery across southern Portugal.
Northern Italy will have some thunder showers but the south will have a mix of sunshine and cloud.
The Balkans will have a mix of sun, cloud and showers. There will be plenty of sunshine over Greece. The interior of Turkey will have rain and thunder showers, but southern Turkey and Cyprus will be dry.

Five-day forecast

Unsettled conditions will continue over the British Isles during the next few days.
Conditions over north-western and western Europe will be unsettled with showers at times.
The eastern Mediterranean will be settled with ample sunshine.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	fair 32	Caracas	shower 32	Faro	sun 23	Madrid	fair 27	Rangoon	shower 30
	Celsius	Belfast	shower 21	Cardiff	cloudy 22	Frankfurt	fair 31	Majorca	fair 30	Reykjavik	cloudy 11
Abu Dhabi	sun 40	Belgrade	fair 26	Casablanca	fair 23	Geneva	shower 29	Malta	sun 30	Rio	sun 24
Accra	shower 29	Berlin	fair 28	Chicago	fair 24	Gibraltar	sun 26	Manchester	shower 22	Rome	cloudy 29
Algiers	fair 34	Bermuda	fair 25	Cologne	fair 30	Glasgow	rain 17	Manila	fair 34	S. Frsco	fair 21
Amsterdam	thund 27	Bogota	thund 20	Dakar	fair 27	Hamburg	sun 27	Melbourne	fair 17	Seoul	shower 26
Athens	sun 29	Bombay	fair 34	Dallas	fair 34	Helsinki	cloudy 24	Mexico City	shower 29	Singapore	fair 33
Atlanta	fair 24	Brussels	thund 26	Delhi	fair 37	Hong Kong	shower 30	Miami	thund 30	Stockholm	fair 26
B. Aires	fair 16	Budapest	fair 27	Dubai	sun 39	Honolulu	fair 31	Milan	thund 27	Strasbourg	fair 29
B.ham	shower 24	C.hagen	sun 22	Dublin	shower 21	Istanbul	shower 24	Montreal	shower 27	Sydney	fair 20
Bangkok	thund 37	Cairo	sun 29	Dubrovnik	sun 27	Jakarta	fair 32	Moscow	cloudy 27	Tangier	sun 24
Barcelona	fair 26	Cape Town	fair 16	Edinburgh	rain 15	Jersey	shower 20	Munich	fair 30	Tel Aviv	fair 28
						Karachi	sun 37	Nairobi	fair 26	Tokyo	shower 25
						Kuwait	sun 45	Naples	fair 30	Toronto	fair 27
						L. Angeles	sun 22	Nassau	shower 32	Vancouver	rain 19
						Las Palmas	sun 24	New York	sun 32	Venice	cloudy 25
						Lima	sun 27	Nice	fair 27	Vienna	fair 27
						Lisbon	fair 22	Nicosia	sun 27	Warsaw	cloudy 23
						London	shower 26	Oslo	cloudy 23	Washington	sun 31
						Lux.bourg	thund 24	Paris	shower 27	Wellington	fair 14
						Lyon	fair 32	Perth	shower 17	Winnipeg	fair 25
						Madeira	sun 22	Prague	sun 26	Zurich	fair 27

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Doors close on cybershoppers

International Business Machines' "World Avenue" internet shopping mall will close early next month because of a lack of cybershoppers. IBM believes the venture was flawed because it put the company in the unfamiliar role of attempting to draw users to a group of retailers. Page 20

Texaco may quit Burmese gas field
Texaco is poised to sell its controlling stake in Burma's controversial Yetagun gas field after the US imposed investment sanctions on the military-ruled nation. Page 16

J.P. Morgan links with Germany's Deka
The Deka Group, Germany's second biggest mutual fund management company, is linking with J. P. Morgan, the US investment bank, and Lombard Odier, the Swiss private bank, to extend its range of funds and services. Page 18

Institutions unhappy with NatWest Bank
National Westminster Bank, one of the UK's largest, is coming under pressure from institutional investors unhappy with the poor performance of its shares. Page 21

Peregrine to cut Thai retail business
Peregrine Investments Holdings, the Hong Kong-based investment bank, is to cut staff at its Thai retail brokerage and refocus its energies on institutions and wealthy clients. Page 16

New listings on Easdaq market
Easdaq, the pan-European stock market for emerging growth companies, will shortly enjoy a spurt of activity with eight new stocks expected to list by mid-July. Page 18

Cuban sugar crop falls short
Cuba's sugar harvest, which ended at the weekend, will fall short of last season's crop of 4.4m tonnes. The disappointing result is expected to lead to a shake-up of the industry. Page 24

Chilean group to raise $240m
Quiñenco, an investment vehicle of Chile's Luksic family, said it aimed to raise up to $240m from a rights issue in Chile and abroad. Page 20

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			**PARIS (FFr)**		
Rises			Rises		
Allianz	1700	+ 90	Danone	955	+ 13
Leifheit	73.60	+ 1.10	Legrand	1050	+ 34
Mannesmann	735	+ 11	Falls		
Schering	187.85	+ 5.85	Accor	870	- 12
Falls			Carrefour	3900	- 40
Kali & Salz	164.50	- 6.50	Colbert	923	- 28
Klöckner Werke	125.50	- 2.30	Renault	127.80	- 6.20
NEW YORK ($)			**TOKYO (Yen)**		
Rises			Rises		
Cypress Semi	15⅝	+ 1⅛	Chiyoda Oil	573	+ 18
Santa Fe Intl	32⅛	+ 3⅞	Fuji Film	4870	+ 70
Storage Tech	26⅝	+ 1⅛	JVC	1430	+ 50
Falls			Nippon Sharyo	780	+ 45
AMR Corp	93⅛	- 6	Sanda	970	+ 100
Unitrode	30¼	- 2⅝	Falls		
Zitel	19⅞	- 2	Nippon Meat	1490	- 60
LONDON (Pence)			**HONG KONG (HK$)**		
Rises			Rises		
Eurotunnel	71	+ 5½	Cathay Pac	12	+ 0.15
Gent (S.R.)	78½	+ 8	HK & S Hotels	12.10	+ 0.35
High-Point	57½	+ 20	Wing On Co	9.65	+ 0.15
Petra Diamonds	91½	+ 13	Falls		
Tullett	84	+ 9	Amoy Props	8.25	- 0.10
Falls			Harbour Centre	11.50	- 0.50
Actuaries Invest.	16½	- 3½	Shaw Bros	8.65	- 0.15
TORONTO (C$)			**BANGKOK (Baht)**		
Rises			Rises		
Abacan RSC	3.61	+ 0.54	Jalaprathan	17.75	+ 1.50
Corsair	6.85	+ 0.95	Mandarin Hotel	13.75	+ 1.25
Dundee	3.80	+ 0.20	Matchbox	51.50	+ 4.50
Falls			Falls		
Golden Queen	1.50	- 0.51	Central Pat	45.00	- 5.00
Pe Ben Oil	4.50	- 0.85	United Comm	90.00	- 10.00
Trans Mtn	1.20	- 1.05	United Sugar	41.50	- 5.50

New York & Toronto prices at 12.30

Stet tops Spain telecoms bids

Italian group leads race for Retevisión

By Tom Burns in Madrid and Alan Cane in London

Stet, the state-owned Italian telecoms operator, yesterday became frontrunner to acquire Retevisión, Spain's second carrier, opening the door to further reshaping of Europe's telecoms industry.

Stet's cash offer was nearly 40 per cent higher than a rival bid made by a consortium led by France Telecom and Sprint of the US and, at Pta116.3bn ($805.5m), was more than double the minimum price for the 60 per cent stake set by the Madrid government.

Analysts say that if Stet were successful in its bid, it would become a desirable partner for Unisource, the European alliance of smaller European carriers linked to AT&T, the largest US operator.

Others believe Stet may attempt to deal directly with AT&T, giving it access to the US company's WorldPartners global alliance.

Unisource was badly hit in April when Telefónica, Spain's dominant operator, abandoned it to join Concert, the partnership between British Telecommunications and the US operator MCI.

Retevisión, a television signals transmitter, is due to start delivering telephony services in competition with the privatised Spanish operator Telefónica before the end of the year, 12 months before full liberalisation of the domestic telecoms sector.

Stet needs to join a global alliance if it is to realise its international ambitions and to protect its domestic market share after liberalisation.

It would also be an attractive partner for AT&T or Unisource. Mr Tim Hirst, analyst with Dresdner Kleinwort Benson, said: "Of the top five markets in Europe, AT&T has a weak position in the UK, France, Spain [since the departure of Telefónica] and Italy. Should the Stet consortium win the Retevisión bid, an alliance with AT&T would immediately improve the position in Spain and Italy."

The Stet cash bid was co-led by Endesa, the government-controlled power group and Spain's dominant electricity generator.

The rival consortium containing Banco Central Hispano (BCH), France Telecom and Sprint, offered Pta84bn. The competing offers were delivered on Monday and the sealed cash bids were opened yesterday.

A consortium led by Mannesmann, the German industrial group which has links with AT&T in Germany, failed to put in a bid.

The technical aspects of the bids will be examined and the ruling on the tender is due within two months.

Lex, Page 14

Reichmann puts faith in Mexico City office tower

By Daniel Dombey in Mexico City

Mr Paul Reichmann, the Canadian responsible for some of the most ambitious real estate developments of the 1980s, yesterday announced that he was forging ahead with a big project in the troubled Mexico City market.

The project reflects increasing confidence in the Mexican property market only two and a half years after the peso crisis. It also signals an effort by Mr Reichmann to regain the success once enjoyed by Olympia & York, his former company.

Reichmann International, an association between Mr Reichmann and the financier Mr George Soros, said it had entered a 50/50 joint venture with Empresas ICA, Mexico's biggest construction firm, to build a high-rise office tower in Mexico City.

Final construction and financing plans will be announced in the next ninety days. The project, first mooted in 1994 and shelved following the peso crash, had been planned as the country's tallest tower, with 52 storeys and a $250m price tag. It is understood that the size of the project will be revised and could cost $100m-$150m.

Even so, the construction of the tower, which may begin as early as next month and take about three years, represents a vote of faith in a difficult market.

"Building a huge office tower like this, so close to the peso crisis, is a very aggressive step," said Ms Sobani Warner, an analyst at Bear, Stearns in New York.

The tower was one of three large projects announced during 1994. Reichmann and ICA planned a $500m shopping mall development in the western suburb of Santa Fe, and Reichmann has also been involved in a $500m plan to revitalise the centre of Mexico City. To date there has been no building on any of the sites.

However, there have been signs that the real estate market has been recovering, despite plans by the Mexican government to sell some of the $40bn in assets seized in lieu of bad debts. A number of property companies have been listed on the stock exchange.

Ekran rights issue may stall dam project

By James Kynge in Singapore

Mr Ting Pek Khiing, the Malaysian businessman who is managing a national project to build the huge Bakun hydro-electric dam, has come under pressure from underwriters.

They want him to take some of the financial burden of a M$1.47bn ($585m) rights issue by his flagship company, Ekran, which has been under-subscribed.

Financial industry executives said yesterday that several underwriters for the one-to-one rights issue of 257.14m shares in Ekran have expressed discontent at the prospect of being left with shares which were not subscribed for.

Financial analysts said last week that the Ekran rights issue was less than 50 per cent subscribed.

The proceeds from the rights issue had been intended to help finance Ekran's purchase of a 32 per cent equity stake in Bakun Hydroelectric Corp, the company which will oversee the building of the Bakun dam and operate it from 2003.

Bakun is scheduled for an initial public offering in July, but this may be delayed if Ekran's financing problems are not resolved, analysts said.

Mr Ting, who owns 26 per cent of Ekran, is believed to have taken up his rights at a cost of M$381m.

But other investors have been distinctly lukewarm because the rights issue was priced at M$5.7 per share – higher than the prevailing share price for much of the last few weeks.

The company's shares were suspended yesterday pending an announcement.

Bakun has been designated by Dr Mahathir Mohamad, the prime minister, as a national project. This means it is highly unlikely to be shelved despite criticisms from environmentalists and scepticism from the financial community which regards the dam's projected 12 per cent return on equity as too low to justify a M$13.6bn price tag.

But the stock market's steady retreat since March has thrown up further financial problems. Sentiment has been depressed to the extent that investors are no longer prepared to support projects which look economically risky.

"His project will probably go ahead because it has the prime minister's backing. The argument is over which institutions will be the ones to shoulder the financial burden," said one financial industry executive.

ABB, the Swiss-Swedish company leading the dam's construction, is scheduled to be paid partly from the funds raised by the Bakun Hydro-electric Corp's listing. Dr Mahathir has given his assurance to ABB that it will be paid.

ABB has yet to start building the dam.

Japanese electronics conglomerate NEC unveiled its "virtual fish" – a moving 3D image – at the Asia Telecom exhibition in Singapore yesterday. Buyers are offered a choice of species Picture: Reuter

Chinese weigh up regional telecoms for C&W venture

By Nicholas Denton in London and John Ridding in Hong Kong

Up to 20 of China's regional telecommunications companies are being considered for inclusion in the proposed joint venture between the Chinese government and Cable and Wireless of the UK.

The carriers are subsidiaries of China's ministry of posts and telecommunications (MPT) and are understood to include Guangdong MPT, the company which covers the part of China abutting Hong Kong.

The assets selected would be transferred to China Telecom (Hong Kong), the planned joint venture in which C&W said last week it would take a stake in exchange for some of its shares in Hongkong Telecom. The intention, say people familiar with the deal, is to create a company which could be floated in the fourth quarter of this year, valued at about £5bn ($8.2bn) and realising about £2bn from financial investors.

C&W is then expected to reduce its stake in Hongkong Telecom, the territory's dominant carrier, to about 30 per cent, in exchange for a holding in the new vehicle for investment in mainland China.

Another possibility being mooted is the inclusion in CTHK of a carrier such as Deutsche Telekom to cement a link between C&W and one of the global telecoms alliances.

Goldman Sachs, the US investment bank, has been selected to advise on the creation of CTHK and lead the public offering. BZW of the UK and Morgan Stanley of the US are advising C&W and the Chinese government respectively.

On Friday, it was announced that China Telecom, part of the MPT, was paying $1.19bn for a 5.5 per cent stake in Hongkong Telecom, leaving C&W with 54.5 per cent.

The agreement is part of a shift of corporate power to China-backed companies before Beijing takes over the UK colony on July 1.

Subsequent phases of the deal remain unclear because China has not specified the assets it will inject into the joint venture.

C&W shares, having risen 15 per cent on news of the agreement, slipped back yesterday after investment banks SBC Warburg and Dresdner Kleinwort Benson recommended that investors reduce their holdings.

By Barry Riley

The Dow Jones cashes in its options at last

Defiantly the Dow Jones Industrial Average remains the world's best-known stock market index even though in terms of design it is absurdly old-fashioned. After all, it is 101 years since it was launched by Charles Dow.

Yet last week's news that Dow Jones is finally to sell the rights to its precious average to the derivatives markets is a reminder of the pressures both on the average and on Dow Jones itself, which has some very dissatisfied shareholders, not least within the controlling family.

Competition between indices is intense. The Dow Jones weekly *Barron's* now lists 39 US domestic market benchmarks in its "Major Indexes" table. They come from eight leading providers.

In the early 1980s Dow Jones risked squandering its advantage by refusing to license its average to the eager derivatives exchanges attracted by the retail potential. Dow Jones feared the DJIA would be tainted by speculation and scandal. As a result it effectively handed the business over to the then little-known Standard & Poor's 500 Index. The scandals never happened.

How, then, has the Dow average remained the first-quoted measure of the US market despite being of crude construction and with a very narrow coverage of 30 blue chips? It falls a long way short of comprehensively representing corporate America.

First, a declaration of interest: the Financial Times is a partner of Standard & Poor's in global indices, and competes against Dow Jones in various fields. Also an acknowledgement: the FT's own one-time flagship benchmark, the 30-Share index, has faded into a twilight zone, though it is still calculated. It moved up through the 3000 level last month, but hardly anybody noticed.

The FT is in the index business through partnerships, primarily now with the London Stock Exchange. There has also, however, been a very long-term link with the actuarial institutes, which have acted as design consultants, and the 30-Share Index faded from view mainly because the actuaries were so hostile to it on technical grounds.

The average benefits from the cascade of money into the US market leaders

Dow Jones, however, has managed to preserve its own average from professionals who might be contemptuous of its crude construction. The company has done so partly through the marketing strength it possesses by virtue of publishing the mass-selling *Wall Street Journal*. This vigorously promotes the DJIA, which remains the premium index for retail investors (although these days it has to share a corner of the cable TV screen with the S & P and the Nasdaq Index).

Right now, too, the 30-share Dow average is hot. For much of the 1970s and 1980s it trailed the broader indices because small capitalisation stocks outperformed. But currently the US market is being led by a handful of giants.

Over 25 years the DJIA has underperformed the S & P 500, if only by a tiny margin of 0.1 per cent a year on average. But over five years it is ahead by 1.3 per cent annually, and by 3.1 per cent over one year.

In March the average was freshened up. Four new constituents were brought in, with Hewlett-Packard and Wal-Mart, for instance, replacing Bethlehem Steel and Woolworth. Even the newcomers, it has to be said, look rather long in the tooth. But for the time being the average benefits from the cascade of money into the US market leaders. Still, Dow Jones has passed up the alternative of reinventing the DJIA as a modern 100-share capitalisation-weighted index like London's Footsie or like one already calculated in the US by Standard & Poor's.

The Dow Jones Industrial Average scores heavily on sheer familiarity, and its 101-year history is a unique feature. But longevity is a mixed blessing. The loss of the franchise among professional investors is now irreversible and any product, no matter how powerful the brand, must maintain competitive quality if it is to survive in the long run.

DKB awaits further punishment

The scandal-hit bank may suffer penalties more serious than the sacrifice of individuals

As the financial scandal at Dai-Ichi Kangyo Bank widened yesterday, Mr Ryutaro Hashimoto, Japan's prime minister, delivered a carefully timed blow.

Speaking to parliament, he announced that the government was considering punishing DKB by taking away its de facto monopoly business underwriting the Y826bn ($7.3bn) of state lottery tickets sold each year.

Such a threat may not be carried through: few other banks appear keen to take on a business which is believed to yield less than Y15bn profits a year.

But it highlights the guessing game now dogging Tokyo's markets: just how large an impact will the latest scandal have on the mighty bank?

DKB has not yet seen the dramatic defection of clients that has taken place at Nomura Securities following revelations of its links to the same scandal earlier this year. But expectations are growing that DKB will face penalties – irrespective of yesterday's executive reshuffle.

With DKB already under severe pressure in Japan's over-banked financial sector, any loss of business could be a distinct blow.

Mr James McGinnis, banking analyst at Dresdner Kleinwort Benson, says: "The situation for DKB is potentially much worse than Nomura. Whatever happens, Nomura will remain Japan's largest securities house – but DKB is surrounded by lots of competition from the other banks."

What is clear is that events have dented the image of the bank, which is the second largest in terms of deposits in the country.

When the group was first accused last month of making large, unsecured loans to the same corporate extortionists at the heart of the Nomura affair, it initially maintained a stony silence – a reflection of its reputation as one of Japan's more traditional and secretive banks.

However, as the government investigation mounted, it was finally prompted into a sweeping reshuffle of its senior management.

The company appears to hope that these ritual sacrifices of key individuals will be enough to appease the government and its customers. Mr Katsuyuki Sugita, the new DKB president, yesterday stressed that the bank would take firm action to punish individuals involved in the scandal.

But though pinning the blame on individual scapegoats has been the traditional pattern of punishment in corporate Japan, there are growing hints that this may no longer be enough.

Earlier this week, the Keidanren, Japan's business federation, announced that it would suspend membership for both DKB and Nomura, as a punishment for the scandal.

Some public bodies, such as the Tokyo metropolitan government, have already indicated they will stop using DKB to manage new city funds and are considering dropping the bank as an underwriter.

Private companies such as NTT and East Japan Railway have also indicated plans to cut business ties. And in May deposits at the bank fell by some 1.1 per cent – a hint of defections among retail clients.

However, the crucial question is whether the government will also take action against the bank, as it is planning to do against Nomura. For the moment this remains unclear, not least because the government has not completed its investigation.

However, the Ministry of Finance has indicated it is considering suspending the bank from underwriting.

Some observers think that the bank may also face a penalty later this summer, or be banned from the inter-bank market for several months. Another possibility – potentially more damaging – is a ban on its corporate foreign exchange business.

These moves in themselves might not affect the bank's bottom line too badly. DKB notched up Y391bn of core profits in fiscal 1996, and most analysts think that even exclusion from the foreign exchange market would cost the bank no more than a small fraction of this.

But it is the timing of the scandal, ahead of the planned deregulation – or Big Bang – of Japan's financial markets that could cause the most damage. The Big Bang is expected to intensify competition in traditional commercial banking, an area on which DKB is heavily dependent.

Mr Sugita, the bank's new president, may face a Herculean task in the short term, not least because fending off the blows from the latest *sokaiya* scandal will leave the bank far less time than its competitors to carve out a strategy for Big Bang.

Gillian Tett

Katsuyuki Sugita (centre), the new president of Dai-Ichi Kangyo Bank, and other bank officials bow deeply at a news conference after the resignation of 21 directors *Reuter*

Peregrine to reduce Thai retail business

By Louise Lucas in Hong Kong

Peregrine Investments Holdings, the Hong Kong-based investment bank, is to cut staff at its Thai retail brokerage by one third and refocus its energies on institutional and wealthy client business.

Peregrine Nithi Finance & Securities, which is 20 per cent owned by the Hong Kong company and 36 per cent held by Thai Nithi Pat Capital, a Thai finance company, will close the retail dealing rooms in its head office and Sindhorn branch office.

Mr Alan Mercer, group legal counsel, said the move was prompted by the downturn in the Thai stock market. "The retail business is just taking up too much office space and not producing anything. And we cannot see any light at the end of the tunnel."

The retail business had been administration-intensive because of client demands for margin finance and the subsequent requirement to check credit risks, often on small sums of money, he added.

However, Peregrine has no plans to quit the market. It is maintaining its research capabilities – a key part of serving an international client base – and the Thai company will still boast a staff of about 110 after the 40 redundancies.

The move follows a series of realignments at Peregrine businesses in emerging parts of Asia.

The group has now wound up its distribution business in Vietnam to concentrate on core investment advisory activities, which will be managed from Hong Kong. This follows the arrest on tax evasion charges of the head of Peregrine Capital Vietnam in April.

In the same month, an arrest warrant was issued for the head of Peregrine's investment banking business in Bangladesh – one of 36 warrants issued in the wake of the country's stock market collapse.

In January, Peregrine withdrew from Burma after winning damages in a legal action against Ms Miriam Segal, the former chairman of Peregrine Capital Mynamar.

Burma's contribution to group profits had come from fish and commodities trading, far removed from the core investment business.

By contrast, the reorganisation in Thailand leaves Peregrine free to concentrate on profitable accounts and retain its commitment to the market.

"It is a decision made to reflect the tough economic and market conditions that face all securities companies in Thailand," the group said.

Texaco considers sale of stake in Burmese gas field

By Ted Bardacke in Bangkok

Texaco of the US is poised to sell its controlling stake in Burma's controversial Yetagun gas field after the US imposed investment sanctions on the military-ruled nation.

Malaysian oil company Petronas yesterday said it was considering bidding on the project.

Texaco stressed it had not made a decision about its Yetagun stake, but has appointed investment bankers to sound out interested buyers. It also indicated it would be willing to engage in an asset swap within the Asia region.

Most analysts believe that since Texaco signed a production and gas sales contract in March, it could continue with its investment without breaching the US ban on new investment, which was announced in mid-April.

However, future expansion would be difficult if not illegal, and the company is keen to remain in line with US policy.

Mr Hassan Marican, Petronas chief executive, said: "We have been approached by [Texaco's] investment banker and so have others, so it is a bidding process. At the moment we are studying the data and making arrangements for it, but we are still at a preliminary stage."

Other companies approached by Texaco's investment bankers are thought to include the company's two main partners in the Yetagun project, Premier Oil of the UK and Nippon Oil of Japan, along with Pertamina of Indonesia and Genting Sanyen of Malaysia.

The Yetagun project will in late 1999 begin selling between 200m and 400m cu ft per day of natural gas from an offshore field in the Andaman Sea to the Petroleum Authority of Thailand.

The gas is expected to be transported across Burma in a pipeline that would run parallel to one being constructed by a consortium led by Total of France and Unocal of the US.

The Total-Unocal pipeline is the subject of a suit in US courts claiming the oil companies have been a party to human rights abuses and forced labour undertaken by Burmese troops charged with clearing the pipeline route.

MBf proposes merger to secure a banking licence

By James Kynge in Singapore

MBf Group, Malaysia's leading finance company, is entering merger talks aimed at realising the company's long-held ambition to gain a banking licence, the company said.

It will hold talks with Suria Capital Holdings, a Sabah state company which owns Sabah Bank, one of the smallest of Malaysia's domestic banks.

Under the merger proposal, an MBf subsidiary, MBF Capital, would merge with Suria Capital.

The merger needs approval from the finance ministry and from Bank Negara, the central bank.

The government has been pushing for mergers within the financial sector, but officials said that the union must be proven to be in the interests of the country.

Malaysia has put a freeze on granting banking licences, so that the only way to obtain one is to acquire or merge with an existing bank.

The banking licence is crucial to MBf's ambitious vision for its future.

The group, which has total assets of M$24.4bn (US$9.71bn) and a pre-tax profit in the year to December 1996 of M$511m, wants to become one of the leading financial groups in the south-east Asia region. By 2001, it hopes to raise its annual pre-tax profit to M$1bn.

The company last week arranged a M$350m syndicated loan which a company executive said would be used for expansion both within Malaysia and in the Asia region.

MBf has a presence in Indonesia, Thailand, the Philippines and Taiwan.

Indian corporate results decline

By Khozem Merchant in Delhi

Indian companies recorded their worst performances in a decade in the 12 months to June, according to a survey published this week.

Corporate results were down all round, with large companies recording a 6 per cent fall in profit after tax, the first decline in 10 years, says the Bombay-based Centre for Monitoring Indian Economy, an independent think tank.

CMIE's survey of 588 non-financial, private-sector companies suggested four reasons for the decline.

A poor harvest in 1995-96 cut domestic demand; companies continued to suffer from a two-year long liquidity squeeze, with medium to small companies borrowing at internationally high rates of 24-26 per cent; a sharp fall in electricity generation in southern India had hit industry in the region; and in the last quarter of 1996, cheap imports of chemicals, in particular benzine, had squeezed local demand.

Mr Mahesh Vyas, executive director of CMIE, said the monsoon, now imminent, should aid recovery with a good harvest. But he added that industrial output for the year would still fall short of the government's 12 per cent target.

He discounted the impact of political uncertainty in New Delhi – where the government of IK Gujral is the third to be installed in just over a year – and the effect of this on central government commitment to further liberalising measures.

Indian companies' poor performance comes after several years of galloping growth. Between 1987 and 1995 companies recorded average increases of 20 per cent in nominal sales. However, growth slowed in 1996-97 to 11 per cent.

Only a few large corporations provided the exceptions. Ranbaxy, the chemicals group, saw a 22 per cent rise in sales in 1996-97, and Gujarat Narmada Valley fertilisers posted a 52 per cent increase.

EBITDA (earnings before before interest, tax, depreciation and amortisation) sank in 1996-97 at a third of surveyed companies, including Colgate Palmolive, Steel Authority of India and Indo-Gulf Fertilisers. The big companies recorded the best performance in this respect, although EBITDA rose only an average of 3.5 per cent overall.

CMIE said after-tax profits – a benchmark indicator – had been extremely volatile over the past decade, swinging from rises of 90 per cent to less than 10 per cent.

However, more than 54 per cent of companies saw profits after tax fall, declining by a half at nearly 50 per cent of these companies.

ASIA-PACIFIC NEWS DIGEST

First Tractor in HK$1.35bn issue

A manufacturer of tractors is set to become the 30th Chinese state-owned enterprise to list in Hong Kong – and the last before the territory reverts to Chinese sovereignty on July 1. First Tractor is planning to raise HK$1.35bn (US$174m) through a stock market listing on June 23. It is offering 300m H shares – the name given to the Hong Kong-listed stock of mainland enterprises – at HK$4.50 each in a global flotation.

The issue price represents a prospective price/earnings multiple of 13.3 times on a fully diluted basis, compared with a stock market p/e of about 14 times. The sale, which represents 40 per cent of the company's enlarged share capital, will consist of 255m shares placed internationally and 45m distributed through an initial public offering in Hong Kong.

Proceeds from the issue will be used to expand manufacturing capacity, pay down debt and for general working capital. Peregrine Capital is acting as global co-ordinator, sponsor and lead manager, and underwriters have been granted an over-allotment option to issue a maximum of 45m extra shares. *Louise Lucas, Hong Kong*

Alphatec bail-out planned

A group of three Thai quasi-government financial institutions say they will enter negotiations with foreign and domestic creditors of Alphatec Group, the struggling Thai electronics conglomerate, in an attempt to restructure the company's debt obligations. Krung Thai Bank, the Export-Import Bank and the Industrial Finance Corporation of Thailand told the Thai cabinet yesterday the plan would include turning the debt held by creditors into equity stakes and finding new partners for the company. Mr Charn Uswachoke, Alphatec chief executive, once seen as the man who was single-handedly pulling Thailand into high-tech manufacturing, said he was ready to relinquish management control of the group if it would help pave the way for a bail-out of the company.

Alphatec Electronics, the flagship company of the group which accounts for nearly 1 per cent of Thailand's total exports, must refinance nearly $80m in credits from international lenders before June 22, when a put option on the company's $45m eurobond comes due.
Ted Bardacke, Bangkok

ICI Australia chief dies

Mr Warren Haynes, managing director of ICI Australia, died yesterday, leaving a void in the company's leadership just as it is being detached from its British parent. Mr Haynes, 58, was taken ill just over a week ago. He had been managing director and chief executive of the Australian company since 1992. Mr Ben Lochtenberg, ICI Australia chairman, will take over as acting chief executive in the short term.

Mr Haynes's sudden death comes just one month after ICI, the UK chemicals group, announced it intended to sell its 62.4 per cent stake in the Australian company. Last week, the two groups reached an agreement on their commercial relationship after the sale. ICI Australia has also agreed to buy back about 10 per cent of its shares, to help facilitate ICI's exit. Yesterday, shares in ICI Australia closed down 5 cents, at A$12, off a low of A$11.98 at one stage. *Nikki Tait, Sydney*

Guangshen Rail investigated

Guangshen Railway, the Hong Kong-listed group, said an investigation by the Chinese securities commission had determined that a short-term investment of Yn300m ($36.17m) made by the company was improper. The investigation also found that certain directors entered in to the investment without the board's approval.

Guangshen said it would terminate the one-year agreement, made with an independent financial institution in December. Guangzhou Railway, Guangshen's parent company, said that Mr Ge Wenan, Guangshen chairman, and Mr Zeng Xianzhao, chief accountant, would be replaced with Mr Li Daihua and Mr Yao Xiaocong at the shareholders' meeting on June 24. The company said it did not expect any difficulty in recovering the entrusted fund. *AP-DJ, Hong Kong*

Goldman in $30m hotels buy

Goldman Sachs, the US investment bank, said yesterday it would take a 30 per cent stake in the Dusit Thani hotel group, which operates hotels in Asia and controls the Kempinski chain in Europe, in a deal worth $30m. Dusit Thani will issue 25m shares and sell them to Goldman for Bt30 each, a significant premium over yesterday's price of Bt17 a share.

Goldman said it was willing to pay the premium because it thought the company's strong brand name offered long-term value despite the current glut in the Thai hotel market and the trouble the group has had integrating the Kempinski chain since acquiring the company in 1994. The company's flagship hotel in central Bangkok is likely to see reduced revenue for the next two years while the construction of a subway station blocks access to the hotel's parking lot.

Dusit Thani said it would use the capital injection to boost liquidity and repay loans. Analysts believe the company has been under a great deal of pressure from Siam Commercial Bank, its principal creditor and joint-venture partner in Kempinski, to repay or restructure a number of overdue loans so that the bank does not have to report them as non-performing when full disclosure rules take effect for Thai financial institutions next month. *Ted Bardacke*

Wesfarmers ammonia plant

Wesfarmers, the Perth-based rural products and services group, is to go ahead with a new A$150m (US$114m) ammonia production facility at its Kwinana site. It said that the investment was partly in response to strong demand for mining industry explosives, nitrogenous fertilisers in the agricultural sector, and for products used in the gold extraction and nickel refining industries – all of which require ammonia as a key raw material.

At present, Wesfarmers supplements local production with imports, but said that the new plant should mean that most demand could be satisfied locally. The new facility will be able to produce 650 tonnes of ammonia a day, doubling the company's current capacity. Commissioning is scheduled for the third quarter of 1999. *Nikki Tait*

Anglo American Platinum Corporation Limited
(Incorporated in the Republic of South Africa) (Registration number 59/02518/06)
("Amplats")

Lebowa Platinum Mines Limited
(Incorporated in the Republic of South Africa)(Registration number 63/06144/06)
("Leplats")

Rustenburg Platinum Holdings Limited
(Incorporated in the Republic of South Africa) (Registration number 05/22452/06)
("RPH")

Potgietersrust Platinums Limited
(Incorporated in the Republic of South Africa) (Registration number 01/06353/06)
("PPRust")

collectively ("the Amplats Group")

Proposed restructuring of the Amplats Group and disposal of Amplats' shareholdings in unlisted diamond trading companies

1. INTRODUCTION

Further to the cautionary announcements published on 16 April 1997, 7 May 1997 and 21 May 1997, shareholders are advised that negotiations regarding the terms of the proposed restructuring of the Amplats Group into a single listed entity ("the restructuring") have been finalised. RPH, which is to be renamed Anglo American Platinum Corporation Limited, will become the listed entity for the restructured Amplats Group. To allow the Amplats Group to focus on its core business of mining and marketing platinum group metals, Amplats intends to dispose of its shareholdings in unlisted diamond trading companies ("DTCs") ("the disposal"). Details of the restructuring and the disposal and other related matters are set out below.

2. RATIONALE FOR THE RESTRUCTURING

The unique competitive advantages of Amplats Group are its extensive portfolio of viable mineral resources and its financial strength. The Amplats Group intends to utilise these advantages to move down the cost curve by adding to and enhancing the suite of cost competitive production sites, not only to improve margins, but also to take advantage of market opportunities for growth.

Accordingly, the Amplats Group needs to have unconstrained choice in developing new mining projects in order of profitability and in determining the optimum production mix from its various production sites in any given circumstances. Such flexibility would enable the Amplats Group to manage its asset base more effectively, so optimising its position on the industry cost curve for the long-term benefit of all its stakeholders.

PPRust shareholders would exchange their investment in the current single pit operation and the company's mineral resources for a more risk diversified and extensive portfolio of production sites and resources. In addition, shareholders would benefit from an increased exposure to the platinum price whilst continuing to enjoy the protection provided by the low cost production opportunities which PPRust brings to the Amplats Group.

The current financial and operational structure of Leplats is inadequate to ensure its ongoing viability. The restructuring would enable the Amplats Group to properly address these issues while at the same time offering shareholders value for the companies mineral resources.

Amplats shareholders would benefit through the unlocking of the inherent value of Amplats as measured by the discount of its share price relative to its net asset value.

RPH shareholders would acquire operations and resources which consolidate the Amplats Group's position as the world's largest and most robust platinum producer, which, by serving a single body of shareholders, permits maximum operational flexibility.

3. THE DISPOSAL

Amplats will dispose of its shares in the DTCs to De Beers Consolidated Mines Limited ("De Beers"), De Beers Centenary AG, Anglo American Investment Trust Limited and companies associated therewith, subject to the approval of Amplats shareholders and any relevant authorities. The consideration for the disposal will be US$194.5 million for the foreign DTCs and R309.8 million for the South African DTCs and will be settled in cash.

Assuming the disposal had become effective from 1 July 1995, the net asset value of Amplats at 30 June 1996 would have increased by 53.6% from R965.2 million (536 cents per share) to R1 482.2 million (823 cents per share) as a result of the R517 million profit on disposal of the DTCs. Assuming US$150 million of the offshore proceeds was used to settle Amplats' US$ long term liabilities, bearing an average rate of interest of 6.97% per annum, and the balance of the US$ consideration was converted to Rand and placed on deposit to earn an after tax interest rate of 10.4% per annum, which is similar to the yield on the DTCs, for the year to 30 June 1996 the total earnings of Amplats would have decreased by 8.7% from R319.5 million (177.5 cents per share) to R291.8 million (162.1 cents per share). (All references to "cents per share" in this paragraph are based on the current issued share capital of Amplats).

4. DETAILS OF THE RESTRUCTURING

4.1. The unbundling

Subject to the approval of Amplats shareholders, the RPH shares held by Amplats are to be distributed to Amplats shareholders in terms of section 60 of the Income Tax Act (Act 113 of 1993) ("the unbundling") in the ratio of 24.096 RPH shares for every 100 Amplats shares held on the date the restructuring is implemented.

4.2. The schemes

Simultaneously with the unbundling, schemes of arrangement in terms of section 311 of the Companies Act (Act 61 of 1973), as amended, will be implemented as proposed by RPH between:

- Amplats and Amplats shareholders;
- PPRust and PPRust shareholders, other than RPH and Amplats; and
- Leplats and Leplats shareholders, other than RPH and Amplats

(collectively "the schemes").

In terms of the schemes, RPH will issue to the relevant shareholders, registered as such on the record date, RPH shares in exchange for the surrender of their existing documents of title in the exchange ratios set out below:

	Number of RPH shares per 100 shares	Total number of RPH shares to be issued by RPH
Amplats	46*	39 436 809**
PPRust	41	36 924 871
Leplats	6	5 175 073
Total		81 536 753

* Inclusive of the 24.096 RPH shares, the subject of the unbundling.

** Excluding the RPH shares to be distributed in terms of the unbundling, as such RPH shares are already in issue and are presently held by Amplats.

The exchange ratios were established by valuing each of RPH, PPRust and Leplats ("the operating companies") on a discounted cashflow basis over the current life of mine plans using risk adjusted discount rates to establish operational valuations. The mineral rights not currently included in the life of mine plans were valued and included with the operational valuations. The expansion projects announced by RPH and PPRust on 16 April 1997 were taken into account in such valuations.

Amplats was valued on a net asset value basis using market prices for its investments in the operating companies (including the implied premiums for PPRust and Leplats), discounted cash flows for the management contracts with the operating companies and the value for the DTCs as set out in paragraph 3 above. The value of Amplats' holding of RPH shares was included in the valuation of Amplats and hence the ratio set out above of 46 RPH shares per 100 Amplats shares held includes 24.096 RPH shares which are the subject of the unbundling.

The schemes will result in the issue of a total number of 81 536 753 RPH shares, which, based on the ruling RPH share price at the close of business on 9 June 1997, equates to a value of R6 360 million.

5. CONDITIONS PRECEDENT

The restructuring is conditional upon, *inter alia*, the following:

- the approval by RPH shareholders in general meeting of the ordinary resolution relating to the restructuring and the special resolution to enable RPH to increase its authorised share capital;
- the approval by the requisite majorities of Amplats, PPRust and Leplats shareholders at the respective scheme meetings;
- the sanctioning of the schemes by the High Court;
- the registration of the relevant special resolutions with the Registrar of Companies; and
- the necessary approvals of the Johannesburg Stock Exchange ("the JSE"), the Securities Regulation Panel ("the SRP") and any other local or international body having jurisdiction in this matter.

The disposal is not conditional upon the restructuring.

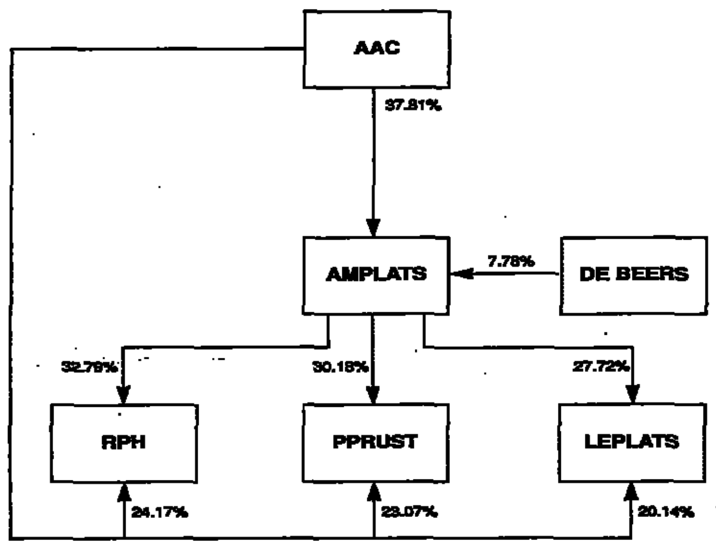
Anglo American Corporation of South Africa Limited ("AAC") and De Beers are major shareholders in Amplats and are classified as related parties for purposes of the disposal. Accordingly, whilst the votes of AAC and De Beers will be counted towards the quorum requirements at the general meeting of Amplats shareholders, at which they will vote their shares in favour of all resolutions, it will nevertheless be a requirement of the JSE for the passing of any resolutions relating to the disposal that they be passed by a majority of shareholders present or represented at the relevant meetings, excluding AAC and De Beers.

6. EFFECTS OF THE RESTRUCTURING

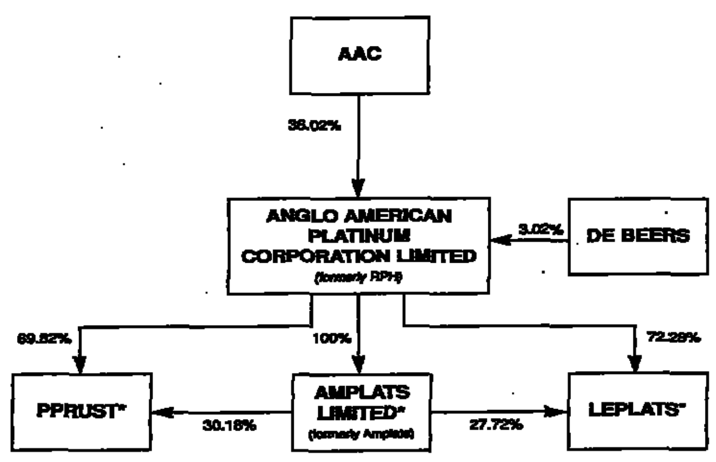
6.1. Shareholdings

Schematics showing the effects of the restructuring on the shareholding structures of the listed companies within the Amplats Group are set out below:

PRIOR TO THE RESTRUCTURING



SUBSEQUENT TO THE RESTRUCTURING



* Delisted

6.2. Financial effects

The financial effects on RPH shareholders of: (i) the restructuring alone and (ii) the restructuring and the disposal together are as follows:

Rands	Notes	Per 100 RPH shares prior to the restructuring and the disposal	Per 100 RPH shares subsequent to the restructuring	Increase/(Decrease) (%)	Per 100 RPH shares subsequent to the restructuring and the disposal	Overall increase/(decrease) (%)
Rands			(i)		(ii)	
Earnings	4	302.40	324.20	7.21	311.30	2.94
Net asset value	5	2 114.90	1 830.40	(13.45)	2 072.20	(2.02)

The financial effects on Amplats shareholders of: (i) the restructuring alone and (ii) the restructuring and the disposal together are as follows:

Rands	Notes	Per 100 Amplats shares prior to the restructuring and the disposal	Per 46 RPH shares subsequent to the restructuring	Increase/(Decrease) (%)	Per 46 RPH shares subsequent to the restructuring and the disposal	Overall increase/(decrease) (%)
Rands			(i)		(ii)	
Market value (90-day)	1	3 036.35	3 311.60	9.07	3 311.60	9.07
Market value (15/4/97)	2	2 885.00	3 277.50	13.60	3 277.50	13.60
Market value (9/6/97)	3	3 425.00	3 588.00	4.76	3 588.00	4.76
Earnings	4	177.50	149.13	(15.98)	143.20	(19.32)
Net asset value	5	536.10	841.98	57.06	953.21	77.80

The financial effects on PPRust shareholders of: (i) the restructuring alone and (ii) the restructuring and the disposal together are as follows:

Rands	Notes	Per 100 PPRust shares prior to the restructuring and the disposal	Per 41 RPH shares subsequent to the restructuring	Increase/(Decrease) (%)	Per 41 RPH shares subsequent to the restructuring and the disposal	Overall increase/(decrease) (%)
Rands			(i)		(ii)	
Market value (90 day)	1	2 561.24	2 951.84	15.24	2 951.84	15.24
Market value (15/4/97)	2	2 620.00	2 921.25	11.50	2 921.25	11.50
Market value (9/6/97)	3	2 955.00	3 198.00	8.22	3 198.00	8.22
Earnings	4	111.00	132.92	19.75	127.63	14.98
Net asset value	5	516.00	750.46	45.44	849.60	64.65

The financial effects on Leplats shareholders of: (i) the restructuring alone and (ii) the restructuring and the disposal together are as follows:

Rands	Notes	Per 100 Leplats shares prior to the restructuring and the disposal	Per 6 RPH shares subsequent to the restructuring	Increase/(Decrease) (%)	Per 6 RPH shares subsequent to the restructuring and the disposal	Overall increase/(decrease) (%)
Rands			(i)		(ii)	
Market value (90 day)	1	283.56	431.95	52.33	431.95	52.33
Market value (15/4/97)	2	290.00	427.50	47.41	427.50	47.41
Market value (9/6/97)	3	330.00	468.00	41.82	468.00	41.82
Earnings	4	5.50	19.45	253.64	18.68	239.64
Net asset value	5	214.60	109.82	(48.83)	124.33	(42.06)

Notes:

1. *Using the moving average share prices for the 90 day period ended 9 June 1997.*
2. *At the close of business on 15 April 1997, being the day before the initial cautionary announcement was made.*
3. *At the close of business on 9 June 1997, being the last practicable date prior to publication of this announcement.*
4. *Based on the audited results of the relevant company/companies for the financial year ended 30 June 1996 assuming the disposal and the restructuring, as appropriate, became effective at 1 July 1995 and based on current issued share capital.*
5. *Based on the audited results of the relevant company/companies at 30 June 1996 assuming the disposal and the restructuring, as appropriate, became effective at 1 July 1995 and based on current issued share capital.*

7. OPINIONS AND RECOMMENDATIONS

RMB Resources, a division of Rand Merchant Bank Limited is of the opinion that the restructuring and the exchange ratios set out above are fair and reasonable to the shareholders of RPH and has advised the RPH board of directors accordingly.

Standard Corporate and Merchant Bank, a division of The Standard Bank of South Africa Limited, is of the opinion that the restructuring and the relevant exchange ratios set out above are fair and reasonable to the shareholders of PPRust and Leplats and has advised the PPRust and Leplats boards of directors accordingly.

FirstCorp Merchant Bank Limited is of the opinion that the restructuring and the relevant exchange ratio set out above is fair and reasonable to the shareholders of Amplats and has advised the Amplats board of directors accordingly.

N M Rothschild & Son is of the opinion that the disposal is fair and reasonable to the shareholders of Amplats and has advised the Amplats board of directors accordingly.

Steffen, Robertson and Kirsten is of the opinion that the data used by Amplats in the preparation of the competent person's report is valid and that the information set out in the competent person's report is presented fairly and accurately and has advised the boards of directors of the Amplats Group accordingly.

The boards of directors of RPH, PPRust, Leplats and Amplats are of the opinion that the terms of the restructuring and the relevant exchange ratios are fair and reasonable to shareholders of each company and accordingly advise the respective shareholders to vote in favour of the relevant resolutions to implement the restructuring.

The board of directors of Amplats is of the opinion that the terms of the disposal are fair and reasonable to shareholders of Amplats and accordingly advises Amplats shareholders to vote in favour of the relevant resolutions to implement the disposal.

8. DELISTING OF AMPLATS, PPRUST AND LEPLATS

Pursuant to the restructuring, Amplats will become a wholly owned subsidiary of RPH and PPRust and Leplats will be 100% owned by Amplats and RPH. Accordingly, the listings of the shares of Amplats, PPRust and Leplats on the JSE and the listings of the shares of PPRust and Leplats on the London Stock Exchange will be terminated.

9. CHANGES OF NAME

The directors of RPH and Amplats have resolved that, subject to the approval of the JSE and shareholders as well as the implementation of the restructuring, the name of RPH will be changed to "Anglo American Platinum Corporation Limited" and the name of Amplats will be changed to "Amplats Limited".

10. DOCUMENTATION

Subject to the approval of the JSE and the SRP, circulars containing full details of the restructuring and the disposal, incorporating the financial effects of the restructuring and the disposal and the notices convening the relevant meetings of shareholders of RPH, PPRust, Leplats and Amplats, will be posted to such shareholders in due course.

Johannesburg
11 June 1997

Easdaq set to double number of stocks

By Katharine Campbell, Growing Business Correspondent

Easdaq, the pan-European stock market for emerging growth companies, will shortly enjoy a spurt of activity with eight new stocks expected to list before mid-July.

These will include Schoeller-Bleckmann, an oilfield equipment manufacturer and the first Austrian stock to be listed.

Scheduled to begin trading by the end of June, the company plans to raise $30m via a private placement to European and American institutional investors. Market capitalisation will be about $115m.

Meanwhile, the row between Easdaq and Euro NM, the European network linking four national markets for fast-growing young companies, intensified as Mr Stanislas Yassukovich, Easdaq chairman, dismissed Euro NM as an immediate threat.

"Of all the companies that have applied, I haven't yet come across one that has quoted the national small cap markets as an alternative," he said.

The alternatives cited had been the Nasdaq market in New York or the London Stock Exchange.

"Our initial policy of establishing an ideal size and being quite firm in rejecting others is paying dividends. Investors appreciate the distinction between us and the national small cap markets," he said.

Its target is companies with a market capitalisation of $100m-$150m, to include the capital raised in the initial public offering.

The exchange, which opened for business last November, has had a slow start, with just eight stocks trading at present.

There have been no newcomers since March, when Chemunex, a French biotechnology group, was introduced.

However, Mr Malcolm Stevenson, director of operations at Herzog Heine Geduld, one of the leading market-makers on Nasdaq – which recently started making markets on Easdaq – said he was encouraged by the calendar for the next month or two.

"Turnover is low at the moment and we need more listings. It is not yet a broadly-based market in terms of investor focus," he said.

Three stocks – Innogenetics, a Belgian biotech company, Artwork Systems, a Belgian software company, and Chemunex – account for the bulk of the turnover, which has been limited to a combined total of about $1.3m a day for all eight stocks in recent weeks.

The market authority is understood to have approved six new listings and approval for two is in the final stages. The prospective entrants include an Israeli pharmaceuticals company and an Italian software manufacturer.

Easdaq hopes to have attracted between 30 and 50 listings by the end of the year, although officials admit the tally is likely to be at the low end of that range.

'National champion' keeps its guard up

The solution to making Finmeccanica profitable could prove politically explosive

Taking a leaf from the governance of ancient Rome, the Prodi administration has created a triumvirate for the delicate task of running Finmeccanica, the state-controlled defence and high-technology conglomerate.

The new top management team, appointed last week following the April resignation of chairman Mr Fabiano Fabiani, is likely to be temporary. For the moment it will be responsible only for Finmeccanica's 1997 accounts. But this promises to be a crucial period during which talks on international alliances in the defence and aerospace sectors have to be concluded and the group returned to profit through selective divestment after its 1996 loss of L540bn ($320m).

For continuity's sake, Mr Bruno Steve, the previous chief executive, has been retained as managing director. He was involved in discussions for defence joint ventures with GEC-Marconi and British Aerospace including the $40bn Eurofighter programme; and he also helped arrange a recent L3,000bn re-financing package of short-term debt.

The principal executive responsibility has been given to Mr Alberto Lina, whose career has spanned both the public sector (including Finmeccanica companies) and private sector linked to high technology (Honeywell and Pirelli).

The chairmanship has gone to Prof Sergio Maria Carbone, an expert in company restructuring with experience of group companies such as the energy and transport concern Ansaldo. Although he has no operational role, he is expected to act as arbiter and government representative.

What is less clear is the kind of relationship the new management will have with Iri, the state holding group that owns the majority of Finmeccanica. The resignation of Mr Fabiani which caused the shake-up was provoked by a clash of personalities more than policies with Mr Michele Tedeschi, the Iri chairman. Mr Fabiani was trying to rationalise Finmeccanica while keeping it intact to be privatised as a conglomerate. He was convinced cross-group synergies existed – especially in research and development, where Finmeccanica accounts for 10 per cent of the national outlay. He further believed it was wrong to break up one of Italy's few large industrial groups, and the biggest after Fiat.

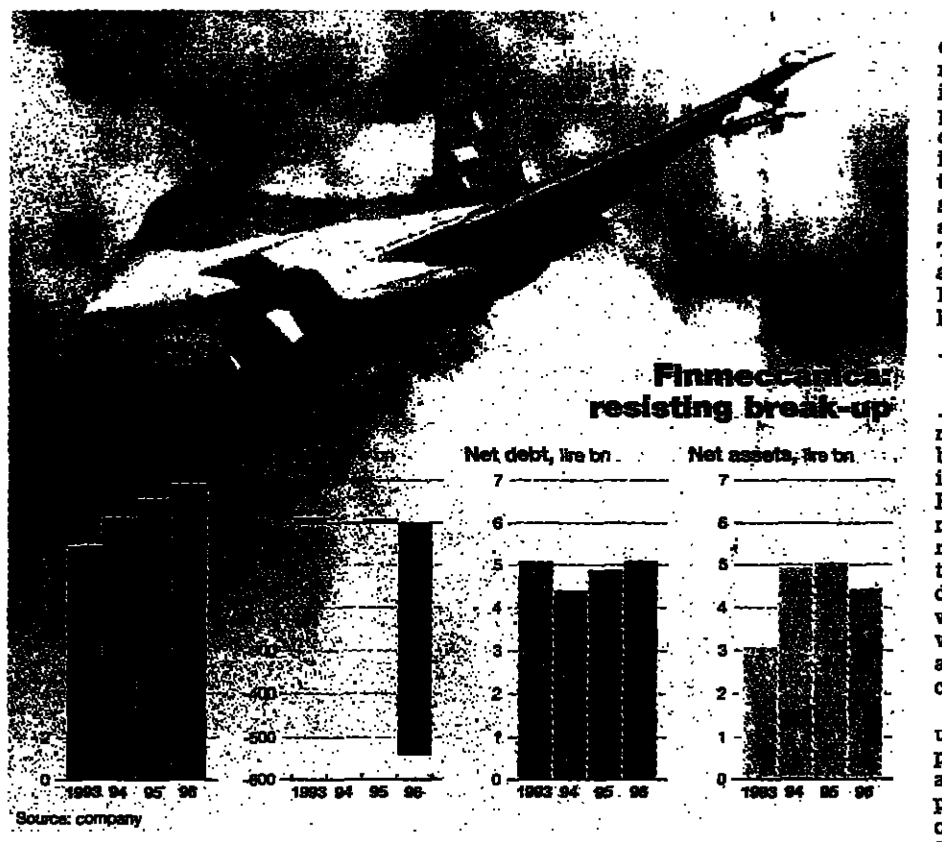
Iri on the other hand felt the group was too slow in reducing its liabilities and could be profitable only with separate strategies for its five main divisions, of aerospace, automation, defence, energy and transport. Apart from missing the 1996 profit target of L184bn, debt rose from L4,878bn to L5,113bn on turnover of L13,883bn.

This was because of write-downs on defence contracts and the higher cost of debt due to the purchase of the German automation group Hartman and Braun. As a result, net assets fell to L4,448bn. Because of Brussels' constraints on state aid, Iri cannot inject fresh capital that might then be seen as a transfer of public funds.

Mr Fabiani had hoped to persuade the Treasury to allow the state's 38 per cent stake in SGS-Thomson, the Franco-Italian semiconductor company, to be transferred to Finmeccanica's books, as it already had a contract from Iri to be industrial manager for the Italian end of the venture. But the treasury has ruled out the option, preferring to narrow rather than enlarge Finmeccanica's focus.

Mr Tedeschi himself has also pushed for Finmeccanica to revert to its role four years ago of a financial holding company, passing operational control to its manufacturing companies.

Finmeccanica's main problem is that its companies are all heavily reliant on exports, which account for 70 per cent of earnings, yet they lack real economies of scale to sustain its competitiveness.



Source: company

In defence Finmeccanica controls directly and indirectly two thirds of the Italian industry and has been promoted as a "national champion". But its presence is too dispersed with state-of-the-art technology in niche sectors such as radar, naval armaments and helicopters. There are also areas such as automation where Elsag-Bailey is one of the world's two leading groups.

However, a report by consultants Mckinsey last year recommended the defence business be split away – an idea successfully resisted by Finmeccanica. Mckinsey is now preparing a new business plan; but this may have to be flexible to accommodate various alliances, whether on the defence side with GEC-Marconi or in aerospace with the Airbus consortium.

Finmeccanica's strategy is unlikely to be determined by purely managerial considerations. Many of its 350 companies are household names of Italian industry. If offered for sale, they would be snapped up by foreign competitors likely to restructure. Thus a break-up is politically difficult.

As Mr Fabiani argued in his farewell address: "Once a country's technical and technological base is weakened, or even destroyed, it cannot easily be rebuilt – if it can be reconstructed at all."

Robert Graham

Deka links with JP Morgan, Lombard Odier

By Andrew Fisher in Frankfurt

The Deka Group, Germany's second biggest mutual fund management company, is linking with J.P.Morgan, the US investment bank, and Lombard Odier, the Swiss private bank, to extend its range of funds and investment services.

The move comes at a time of growing awareness among German investors about mutual fund investment, heightened by concerns over the future of the pay-as-you-go state pension system and the likely impact of the euro currency on financial markets.

J.P.Morgan will develop three new funds for Deka-Bank, the holding company of the Deka Group: a real estate investment trust to invest in publicly traded US property corporations; a global bond fund investing outside the planned European single currency area; and a global equity fund.

These funds will be managed from Dublin, where Deka will set up a subsidiary to take advantage of low taxes, labour costs and levels of bureaucracy. Other emerging market and industry funds are also being developed for Deka, which has about DM120bn ($70.24bn) of funds under management.

Under the deal with Lombard Odier, Deka will offer portfolio management services linked to investment funds for sparkassen (savings bank) customers with accounts of DM30,000 and above.

Mr Friedhelm Schaperjahn, DekaBank chairman, said the group needed to give customers the extra benefits that could only come from experienced international investment professionals. To keep its big German market share, "we cannot rest on our laurels in the face of increasing competition for private banking customers", he said.

Competition was heating up with the prospect of the euro's introduction, and as people also attached more importance to private retirement provision. He said Deka intended to increase the volume of its funds under management to about DM160bn in the next three years. Up to DM3bn would come from the Dublin funds.

J.P.Morgan said its deal with Deka was one of the largest of its type in Europe. It already has smaller fund-based co-operation deals with Deutsche Ring, the German insurance company, and Carrefour, the French retail concern. "Investors in Germany and throughout Europe are recognising the importance of investing internationally," said Mr Günther Skrzypek, head of German asset management at the US bank.

Deka's two main competitors in Germany are DWS, owned by Deutsche Bank, and DIT, part of Dresdner Bank. Both have broadened their equity and bond fund ranges, with emphasis on private pension provision.

Sandvik enters Trustor battle

By Greg McIvor in Stockholm

Sandvik, the Swedish engineering group, yesterday pitched in to a growing controversy over the planned takeover by Lord Moyne, the UK investor, of Trustor, a mid-sized Swedish investment company.

In a direct challenge to Lord Moyne – formerly Mr Jonathan Guinness of the UK drinks family – Sandvik said it was offering SKr827m ($106.7m) for a 49.9 per cent voting stake held by Trustor in Kanthal, the Swedish heating wire company.

The move could derail Lord Moyne's acquisition of a controlling stake in Trustor from Mr Per-Olov Norberg, its main owner. That deal is conditional on Trustor selling its holding in Kanthal to Mr Norberg, who as Trustor chairman last year rejected a similar offer by Sandvik.

Lord Moyne's bid has incurred fierce criticism among Trustor's minority shareholders. Some suggest the Kanthal stake is being sold to Mr Norberg for less than its market value and have threatened legal action to halt the transaction.

Under his agreement with Lord Moyne, Mr Norberg is bidding SKr190 a share for the Kanthal stake. Sandvik's offer is SKr223 per share.

The controversy throws a spotlight on Lord Moyne, who was unknown in Scandinavia until three weeks ago. Since then he has acquired a controlling interest in Amer, the Finnish sporting goods group which owns the US-based Wilson brand, as well as Trustor.

Lord Moyne, a non-executive director of the Guinness drinks group from 1961 to 1988, spent about SKr250m last month to purchase a 52 per cent voting stake in Trustor.

He could face a rebellion from Trustor shareholders on Friday at a special meeting convened to approve the sale of Kanthal shares to Mr Norberg.

Sweden's small shareholders' association has threatened to sue Trustor's board if it approves the sale to Mr Norberg.

Skandinaviska Enskilda Banken Fonder, a mutual fund which has a 7 per cent stake in Trustor, yesterday increased the pressure on Lord Moyne, saying it would consider applying for a court injunction to halt the sale.

An indication of strong institutional backing for Sandvik emerged yesterday when the SE-Banken fund said it had sold its 4 per cent stake in Kanthal to Sandvik.

Two other insurance groups, including Wasa, which has a 3 per cent voting stake in Trustor, also said they had sold to Sandvik. This takes Sandvik's holding in Kanthal to 64 per cent of the equity and 45 per cent of the votes.

Neither Trustor nor Lord Moyne's London-based representative could be reached for comment.

Financials help lift earnings at Huhtamaki

By Greg McIvor in Stockholm

Huhtamaki, the Finland-based confectionery and food packaging group which has restructured heavily, shrugged off a sharp decrease in sales to post a 14 per cent increase in profits for the first four months. Pre-tax profits in the January-April period rose from FM108m to FM117m ($22.8m), despite a drop in sales from FM2.5bn to FM1.9bn.

However, the advance was rooted in improved financial income, partly linked to capital gains from equity disposals. Operating earnings fell from FM156m to FM109m.

Huhtamaki said operating performance in its main Leaf confectionery and Polarcup packaging divisions was in line with expectations. Operating profits at the Leaf confectionery business dropped from FM47m to FM16m despite sales up from FM757m to FM986m.

At the Polarcup packaging unit, operating profits rose from FM65m to FM72m, on sales up from FM842m to FM912m.

Mr Timo Peltola, Huhtamaki chief executive, predicted "substantial" profits growth this year, with a particularly strong final third. Earnings per share were FM3.10, against FM2.73.

Huhtamaki's most-traded I shares closed up FM1.50 at FM225 in Helsinki.

EUROPEAN NEWS DIGEST

German regulator challenges BASF

The German monopolies commission yesterday recommended against the proposed sale by BASF, the German chemicals group, of its potash mining interests to Potash Corporation of Saskatchewan (PCS). However, BASF vowed to fight the decision.

The recommendation is now due to be considered by Mr Gunter Rexrodt, the economics minister. A public hearing is due to be held on June 26, with a decision by Mr Rexrodt expected in mid-July.

BASF planned to sell a 51 per cent stake in a holding group which owns 51 per cent of Kali und Salz, the lossmaking potash and salt-mine operator which has a turnover of about DM1.7bn ($1bn) and employs 8,300 people in Germany.

It wanted to concentrate on its core business of chemicals, pharmaceuticals and oil and gas. BASF planned to keep 25 per cent. It said its stake would be sold below its market value of about DM500m. PCS of Canada is the world's largest producer of potash fertilisers with a turnover of $1.4bn.

The latest move follows a ruling in March by the German Cartel Office against the proposed sale. It said the deal would inhibit competition in the German market, giving PCS a dominant market position. But BASF said at the time it would fight the office's decision and asked the government to overturn the ruling.

In a statement, the monopolies commission yesterday said the deal would have "considerable" limiting effects on competition in the industry which did not outweigh its public advantages. But BASF said the move to join the operations of PCS and Kali und Salz would help protect the German company's competitive position in the market and help secure jobs. *Graham Bowley, Frankfurt*

Advisers named for DEP float

Greece has appointed SBC Warburg, Salomon Brothers and Ionian Bank, a state-controlled Greek bank, as advisers on the flotation of a 10-15 per cent stake in Public Petroleum Corporation (DEP), the state-owned oil refining and products trading group on the Athens stock exchange.

Officials said DEP aimed to raise at least $150m from the offering, which would include a tranche for institutional investors abroad.

The flotation is planned for November, but exact timing will depend on progress with restructuring the group and auditing its accounts to international standards. DEP will be the second utility to come to market under the Socialist government's programme for privatising up to 25 per cent of state corporations, following the telecoms operator OTE.

DEP is the holding group for Greece's two largest oil refineries, Elda in Athens and Eko in Thessaloniki. Each refining company controls a nationwide petrol station chain with market shares of 4 and 14 per cent, respectively.

However, Defa, the group's natural gas operation, will not be included in the offering. Pre-tax 1996 profits at DEP increased 74 per cent to Dr11.5bn ($42.3m) on turnover up 29 per cent to Dr462bn. *Kerin Hope, Athens*

HSBC merges Swiss banks

HSBC Holdings, the UK-based international bank, is merging the Swiss subsidiary of its Trinkhaus & Burkhardt affiliate with Guyerzeller Bank. HSBC's Midland Bank subsidiary owns 73 per cent of the Dusseldorf-based Trinkhaus & Burkhardt and 75 per cent of the Zurich-based Guyerzeller Bank.

The latter has been established for more than a century and is one of the top three foreign-owned banks in Switzerland in terms of profitability. At the end of 1996, Guyerzeller Bank had assets of SFr551m ($393.6m) and was roughly five times the size of Trinkhaus's Swiss subsidiary.

Guyerzeller has 165 staff in Switzerland and Trinkhaus employs 34. Both banks provide investment advice and asset management services to high net worth individuals.

The merged business will continue to be based in Zurich and operate under the Guyerzeller Bank name. Trinkhaus & Burkhardt will take a 16 per cent stake in the enlarged group. *William Hall, Zurich*

Wienerberger abrasives sale

Wienerberger, the Austrian building materials group, has sold its Treibacher abrasives business to Germany's August von Finck family and the local management.

No price was mentioned for the sale of the marginally profitable operation which employs 930 staff in factories in Austria, Germany, Italy, Slovenia and North America and had annual sales of Sch1.5bn ($125m).

Wienerberger shares, which have performed strongly this year, rose Sch16 to Sch2,537 yesterday. Analysts welcomed the move as a further sign that the group was disposing of non-core businesses so it could concentrate on its core strengths as the world's biggest maker of bricks and pipes.

The sale of the abrasives unit comes only a few weeks after Wienerberger raised Sch3bn from the sale of its Business Park Vienna real estate project.

Mr Robin Horne, an analyst with Kleinwort Benson Securities in London, said that the latest disposal could be another sign that one of Austria's most acquisitive companies was building up its war-chest prior to making another international bid. *William Hall, Zurich*

Setback for Swiss buy-backs

The campaign to encourage corporate share buy-backs in Switzerland has suffered a setback following the decision of tax authorities to challenge a ruling which would have made it easier for Swiss companies to buy back their shares.

Last month, Société Générale de Surveillance (SGS), a Swiss company which has led the fight to change Swiss tax rules, won a ruling that its mechanism of issuing put options to buy back shares was not liable to the 35 per cent withholding tax.

Although cumbersome, the method offered companies a chance to buy back their shares and treat all shareholders equally. Until now, Swiss companies which wanted to re-purchase their shares have generally had to do it through a friendly institutional investor who could offset the tax liability.

However, the Swiss federal tax authorities have lodged an appeal against the earlier ruling. However, even if the latest challenge is upheld, the procedure for share buy-backs could become more relaxed on the strength of proposed corporate tax changes now before the Swiss parliament.

A recent study by Pictet & Cie, a Swiss private bank, says Novartis, SGS, Baloise, EMS-Chemie, Jelmoli, Publicitas, and Rieter would probably undertake share buy-backs if the rules were changed.

William Hall

TDK opens Hungarian plant

TDK Corporation, the Japanese electronics group, will today open a 5,000 sq m electronics manufacturing plant in Hungary. The plant, at Retsag, 50km north of Budapest, represents a Y1.2bn ($10.6m) investment and TDK's first in the east-central Europe region.

The plant will employ 600 workers in an area close to the Slovak border which has so far seen little foreign investment. Production will consist of low-current transformers, choke coils and ferrite cores with planned turnover of Y1.5bn in the first year.

In a second phase of development TDK plans to build a chip capacitor unit on the site, due to begin production next year. *Kester Eddy, Budapest*

Severn Trent Plc - more water, more than a water company

Once again, Severn Trent can report on a year's progress that's produced results for shareholders, customers and employees alike.

We delivered the highest quality standards ever.

We reduced leakage by one third to 16%.

We passed on the benefits of increased efficiency to our shareholders and to our customers.

We invested £412 million to maintain and improve our system, and to safeguard supplies for the future.

Our non-regulated businesses flourished too.

In the last year, they accounted for 46% of growth in group profit before interest, they are recognised leaders in their industries, and are set to deliver increasing growth for the group in the years ahead.

We'd like to take this opportunity of publicly thanking all the 10,000 people who work in the Severn Trent group for their hard work over the past year.

Thanks everyone.

FINANCIAL AND OPERATING HIGHLIGHTS

- *Group profit before tax up 4.8%* to £391 million* (£373 million)*
- New investment committed since 1995 of £220 million to eliminate water restrictions, secure supplies, and reduce leakage
- Leakage reduced by one third from 24% to 16% - one year ahead of Ofwat timetable
- Further £6.50 efficiency sharing rebate for Severn Trent Water's customers confirmed
- Non-regulated companies accounted for 46%* of growth in group profit before interest
- Final dividend of 22.16p net per share making 32.66p net per share for the year. Total dividends for the year, including the second interim dividend of 3.84p net per share, are 36.5p - an increase of 12.8%

* *excluding effect of exceptional provision of £20 million for further restructuring at Severn Trent Water and £4.5 million of exceptional costs associated with the proposed bid for South West Water*

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IBM to refocus its approach to websites

By Louise Kehoe in San Francisco

International Business Machines' much-heralded "World Avenue" internet shopping mall will close next month for lack of cyber-shoppers.

The surprise decision by IBM reflects rapid changes in the nascent internet retailing industry as manufacturers and retailers open their own "virtual high street" stores, rather than gather in expensive electronic malls.

IBM believes the venture was flawed because it placed the computer company in the unfamiliar role of drawing users by promoting a group of retailers. It admitted yesterday that retailers are better at conducting consumer marketing and advertising campaigns.

"World Avenue did not deserve to live," said Ms Mary Cronin, author of *Doing Business on the Internet* and many case studies of internet businesses. "The site offered little that was novel or particularly attractive to consumers. The concept of the online shopping malls is dead in the water," she said.

Rather than generic shopping sites, the trend in internet retailing is towards stand-alone sites targeted at specific market segments.

One exception may be a new "Net Market" website to be opened shortly by CUC International, a leading telephone and mail order group.

Yesterday, CUC also announced a partnership with America Online to create online "shopping and lifestyle clubs".

The pending closure of World Avenue, coming on the heels of last month's bankruptcy filing by Nets Incorporated, publisher of the Industry.Net website aimed at facilitating business-to-business electronic transactions, raises questions about projected growth in internet commerce.

Several market analysts have predicted that electronic commerce will grow to $6bn or even $12bn by the end of the decade. Such figures are highly speculative, since there is as yet little evidence to demonstrate that consumers will change their shopping habits.

However, websites that carry strong brand names and address specific market segments are flourishing. Recently, for example, Dell Computer said it was selling $1m worth of personal computer products a day from its website.

IBM is refocusing its internet commerce efforts on business segments, with sites that target the petrochemicals industry, insurance and other sectors. "World Avenue was an entrepreneurial venture. It helped us to validate electronic commerce technologies that we are now making available to our customers," IBM said.

AT&T fuels talk of merger

By Louise Kehoe

Mr Robert Allen, chairman of AT&T, said yesterday the telecommunications operator would "not turn away from opportunities to acquire" the skills and resources it needs to penetrate local markets and left open the possibility of a "strategic merger".

Mr Allen's remarks, delivered at a business group lunch in Boston, followed reports of merger talks between AT&T and SBC Communications, one of the largest US regional telephone operating companies.

AT&T has been moving quickly to enter regional local telephone markets in the US in the wake of last year's Telecommunications Act, which removed regulations that had prevented long-distance carriers from competing in local phone markets.

To date, AT&T offers local services to consumers in four states. It intended to enter an additional 10 states by the end of this year, Mr Allen said. However, "bringing local service to all 50 states is a very large, very expensive, very time consuming proposition".

"We are fully prepared to go it alone," Mr Allen said. "Yet we are always open to ways to accelerate [the process]."

Referring to possible objections to such mergers by competition authorities, he said the partnerships would only be possible if they were "pro-competitive". He complained that the biggest obstacle to competition in US local telephone markets was the "militant foot-dragging of the regional monopolies".

The combination of long-distance and local telephone companies could lead to more open competition, he said, arguing that such a combination "should only be allowed to happen if people have a real choice for local services".

Quiñenco rights issue seeks $240m

By Imogen Mark in Santiago

Quiñenco, an investment vehicle of Chile's powerful Luksic family, said yesterday it aimed to raise up to $240m from a rights issue in Chile and abroad.

The company, one of Chile's top five, intends to start selling shares by the end of the month.

The lead underwriters in Chile are Bankers' Trust, with Morgan Stanley Dean Witter leading the issue in the US.

The company is offering 10.8m American depositary shares, (equivalent to 108m local shares), of which 7.4m are being offered in New York, and 3.4m internationally.

Another 27m shares will be offered as preferential shares to existing shareholders in Santiago (The Luksic family has waived its rights.) The ADS price is expected to be between $17 and $20.

Quiñenco holds stakes in six companies: the Carrera hotel in downtown Santiago, Madeco, a copper cable company, CCU, a brewery and soft drinks company, Lucchetti, a pasta maker, Santiago, the country's biggest national bank, and VTR, a cable and regional telecoms company.

Apart from the hotel, the only significant asset in the group that is not already publicly listed is VTR, which has an estimated value of $900m. Mr Guillermo Luksic, one of the two brothers who manage the Quiñenco companies, has been negotiating a possible merger of VTR with CTC, Chile's biggest domestic telecoms company.

The prospectus for Quiñenco's rights issue describes a merger as a "possibility", but most analysts believe the deal is only a matter of time.

Many feel the prospect of a merger was the impetus behind the rights issue overseas, which has long been expected and at least twice delayed.

The proceeds from the offering will be used to finance $50m in short-term debt repayments, $65m in a capital increase for Madeco, $50m in telecom investments and $65m for "other corporate ventures", including a capital increase in the Banco de Santiago.

The family's other main investment vehicle is Antofagasta Holdings, which has long been listed in London and contains the group's mining and railway interests.

DLJ bulges just where it matters

The US investment bank has big slices of the lucrative segments of the market

Donaldson, Lufkin & Jenrette, the US investment bank, has what every European and American commercial bank wants right now, as they fight for a foothold in the vitally important US market.

It has a big piece of the most lucrative segments of the US market – equity underwriting, junk bond underwriting and mergers and acquisitions.

In key areas, DLJ ranks among the "bulge bracket" – the elite handful of investment banks, including Morgan Stanley and Goldman Sachs, which dominate the US market.

In its domestic market, DLJ is the top underwriter of junk bonds with an impressive market share of 28 per cent, is consistently among the top three or four equity underwriters, and the top four or five advisers on mergers and acquisitions.

But in other areas it looks more like an overgrown boutique. It was until recently virtually unknown outside the US and does relatively little business in investment grade corporate bonds in the US. And even within the key US market, its real rise to prominence began less than a decade ago.

Mr John Chalsty, DLJ's South African-born chairman, says that when he became chief executive officer in 1986, shortly after the bank was taken over by the Equitable insurance group, he felt "a bit like the general with the perfect army for the last war" – in this case, an institutional equities business.

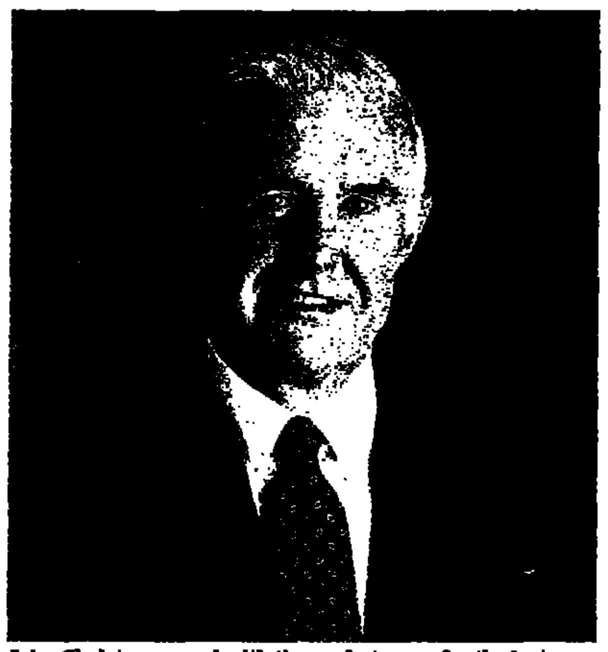
Its transformation began with the crash of 1987. While others laid off staff, DLJ hired aggressively. "Employment [on Wall Street] tanked by about 25 per cent and there became available some extraordinary talents," says Mr Chalsty.

When the high yield market crashed in 1990, DLJ again took a contrary approach. Following the collapse of junk bond firm Drexel Burnham Lambert, while others bailed out, DLJ decided to build.

Its junk bond business has fed other areas. Since many companies which issue junk bonds are growing rapidly, DLJ has also helped them with M&As and equity offerings. It is an investment bank of choice for many leveraged buy-out funds, such as KKR, and also has its own thriving LBO fund business.

"We have worked our way up the scale," says Mr Chalsty. "We used to deal with tiny companies because they were all that was available." These days, DLJ is middle-market and happy to stay that way.

The bank has done deals for the big blue-chip US companies, but as Mr Chalsty says: "We tend to be directed towards a more entrepreneurial client base." Unlike the other bulge bracket firms, "we don't have a team of 25 to look after General Motors", says another DLJ executive.



John Chalsty: general with the perfect army for the last war

A lot of DLJ's clients "tend to be run by the entrepreneurs who started them or by someone who came in at a time of change", says Mr Garrett Moran, vice-chairman of its banking group.

Its latest business move seems rather anomalous given DLJ's history of taking advantage of market dislocations – "We have always been able to take advantage of the troubles of others," says Mr Hamilton James, chairman of DLJ's banking group. A good 10 years after its US rivals set up shop in Europe and Asia, it is trying to build an overseas business, though it insists it wants to be "international rather than global".

This year, it bought Phoenix Securities, the UK M&A boutique. "If we had bought Phoenix a few years ago, we would have paid a lot less," admits Mr James. But he argues that it is not a bad time to be moving into Europe, despite high asset prices. He points out that while times are good, there is lots of turmoil in European investment banking.

DLJ's stated strategy is to build its overseas business in targeted markets and areas – M&A and junk bonds, mainly in the UK, France and Russia – and to focus on a smaller number of industry sectors than in the US – initially, media, telecommunications, financial institutions, healthcare and chemicals.

To those who are sceptical about the prospects for a European junk bond business, Mr Moran points out: "The product didn't exist in the US as a new issue business 15 years ago."

Mr Chalsty believes DLJ is well positioned to cope with intensifying competitive pressures because its businesses are "better protected against the ravages of cutting margins". Despite intense competition in equity and high yield bond underwriting, margins have not been significantly squeezed.

But this is also what makes the bank an obvious takeover target. Equitable still owns 73 per cent and its parent, Axa, has said it would not sell against DLJ's will.

Mr Chalsty says there is no interest in selling and at least one European bank has looked at DLJ and decided its strong culture – the top layer of about 20 executives all have at least 20 years in the company – would be too hard to integrate. But even Mr Chalsty admits that the sort of prices being paid for investment banks in the US these days are looking increasingly heady.

Tracy Corrigan

NatWest comes under pressure

By George Graham and William Lewis

National Westminster Bank is coming under pressure from institutional investors disgruntled with the poor performance of its shares over the last two years.

NatWest's share price has underperformed the rest of the UK banking sector by 25 per cent over the last year, and its approach a few weeks ago to Abbey National has brought renewed attention to bear on the bank's strategic problems.

But investors say that although a business case could be made for a merger with Abbey, the problems lie less in the size and mix of NatWest's businesses than in its management of those businesses.

Mr David Manning of Foreign & Colonial, the fund management group, said the issue for investors was NatWest's strategic direction and management, rather than its size.

"It is the way the current assets are being managed which is the primary problem," he said.

Five other institutional investors with large holdings in the bank were unwilling to comment publicly, but said privately that the bank needed to consider management change rather than a merger or acquisition.

The bank yesterday moved to strengthen its board with the appointment of Mr Pen Kent, former executive director at the Bank of England. Mr Kent will sit on the audit and compliance committee at both group and NWM level.

NatWest's shares are widely dispersed, with no major concentrations. Its largest shareholders include Mercury Asset Management, Prudential, Schroders, Standard Life and Legal & General.

A London banking analyst noted that the approach to Abbey had been seen as "an admission of weakness" from a bank which seven years ago was more than twice Abbey's size.

Abbey is today capitalised at £12.6bn ($20.5bn) to NatWest's £13.8bn.

NatWest officials yesterday acknowledged that they were concerned about the underperformance of their shares, but said they had not been made aware of any intensification of investor anxiety.

NatWest's share price now implies a dividend yield estimated at 5.5 per cent for this year, 40 per cent above the market average, whereas the rest of the banks sector is yielding 4.0 per cent on average.

Lord Alexander and Mr Derek Wanless, NatWest's chairman and chief executive, have redirected the bank's strategy, selling out of retail banking in the US and instead investing £472m in the Gartmore fund management operation and a string of investment banking businesses totalling £1.2bn.

'Big bang' in dairy industry under way

By Alison Maitland

The "big bang" of dairy industry consolidation has begun and more restructuring is on the way, Northern Foods, the UK's largest dairy company, said yesterday.

Mr Chris Haskins, chairman, said there was still too much capacity in the industry as he reported a 2.3 per cent rise in annual pre-tax profits before exceptionals to £127.1m ($207m), despite a £17m hit from lower dairy prices.

The half dozen large milk processors in the UK would eventually have to be halved to three in what was likely to be a painful restructuring, he said. "Something will emerge in the next 12 months."

Mr Haskins said consolidation was taking place worldwide. Large mergers between farmer-owned co-operative milk processors were being struck in the US, New Zealand, Australia, France and the Netherlands.

Avonmore and Waterford, the Irish dairy groups, agreed to merge last month, and three small UK companies have gone into receivership in the past 18 months.

"We'll talk to anybody, but it takes two to tango," said Mr Haskins.

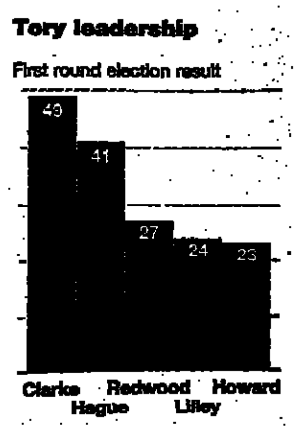
He said the group's results represented a "tale of two businesses". Sales fell 3.3 per cent to £1.88bn as growth in prepared foods was offset by rationalisation and lower commodity prices in the dairy division.

Dairy operating profits fell 26 per cent to £44.8m, squeezed between high raw milk prices and falling prices for EU butter and skimmed milk powder which were made worse by the pound's strength against European currencies.

The group passed on a 2p per litre fall in raw milk prices in April to the supermarkets in an effort to preserve market share against aggressive competitors such as Danish-owned MD Foods.

LEX COMMENT

Conservatives



To most investors, the struggle to lead Britain's bedraggled Conservative party must seem an irrelevance. And rightly so, almost. It is nevertheless worth bearing in mind that a credible opposition matters – because Mr Tony Blair's government could evolve very differently without one. Much of investors' relaxed attitude about an unpredictable Labour government equipped with a vast majority is explained by Mr Blair's evident desire to be re-elected. Imagine then that the threat of defeat at the next election became obviously negligible. Mr Blair would have much less incentive to suck up to business and put the public sector through years of misery.

From this perspective, both the risks and potential rewards of a victory for Mr Kenneth Clarke are clear. On the one hand, Mr Clarke is self-evidently the most formidable opponent of the five candidates Mr Blair could face. And a political debate dominated by Mr Blair and Mr Clarke could hardly avoid shifting in a helpfully pro-European direction.

But therein also lies a danger. The surprising strength of support for Mr John Redwood suggests it would be a mistake to underrate the passionate lunacy of a significant number on the Tory right. Whether such people would be willing to remain members of a party led by Mr Clarke must be rather doubtful. And little as Mr Clarke might miss them, any disintegration of the Tories' already modest parliamentary forces would leave Mr Blair rubbing his hands.

Amersham confirms life sciences merger

By Clive Cookson, Science Editor

Amersham International shares rose strongly yesterday after the health sciences group announced a 30 per cent increase in annual pre-tax profits and confirmed the merger of its life sciences division with Pharmacia Biotech of Sweden.

The shares jumped 131½p to a high of £14.83½p.

The company will take a 55 per cent stake in the venture – Amersham Pharmacia Biotech – leaving Pharmacia & Upjohn, the US-Swedish pharmaceuticals group, with the balance. No money will change hands and no new shares will be issued.

The venture will be the world's largest supplier of biotechnology chemicals and equipment, with sales of £430m ($700m) and annual operating profits of £50m.

Amersham expects the merger to be completed by the end of July. It would have a neutral effect on earnings in the current financial year but would enhance earnings from 1998-99 as benefits of cost cutting feed through.

Cost savings are projected at £23m in 1998-99 and at least £30m a year from then on. About 10 per cent of the 3,600 employees of Amersham Pharmacia Biotech will lose their jobs.

Mr Bill Castell, Amersham's chief executive, said the long term plan was for Pharmacia & Upjohn to sell its stake in the venture. It would probably end up either as a wholly owned Amersham subsidiary or as an independent floated company in which Amersham held a substantial stake.

The 55:45 ratio was designed to reflect that Pharmacia Biotech was larger but less profitable than Amersham Life Sciences. "We have effective control without paying a premium for control," Mr Castell said.

Amersham's results for the year to March 31, showing pre-tax profits up 30 per cent to £65.8m on sales ahead 21 per cent to £426.4m, were ahead of most analysts' forecasts.

Trevor Humphries

Bill Castell: effective control without paying a premium

Marshalls plans US withdrawal

By Andrew Taylor, Construction Correspondent

Marshalls, the West Yorkshire based building products group is to withdraw from the US after a troubled year in which the group saw pre-tax profits tumble by 24 per cent.

The group however, blamed a price war and falling construction spending by UK local authorities, more than lower US profits, for the decline from £25.8m to £19.5m ($31.8m) in the 12 months to the end of March.

Mr Andrew Marshall, who is retiring as chairman in November, said the company would be seeking to swap its remaining US concrete products businesses for UK building material assets "in a sector of the market with which we are familiar."

The profits fall would have been even steeper but for an exceptional profit of £2.7m on the sale of UK rock drilling manufacturing subsidiaries. This was only partially offset by a £1.4m loss on the sale of concrete product manufacturing plants at Chattanooga in the US.

The group had warned in January that profits would be sharply lower and the shares, which have fallen by more than a fifth in the past year only dipped a further 3p yesterday to 134p.

Racing teams near to Formula One deal

By John Griffiths, Clay Harris and Patrick Harverson

Leading motor racing teams are believed to be nearing an agreement, under which they would give up some television revenues in exchange for shares in Formula One Holdings, the company which markets broadcasting rights for the sport and is aiming for a stock market flotation.

A decision will be made by Friday on the timing of the flotation, which media analysts estimate could value the company at about £1.8bn ($2.93bn). Although there is still a chance it will go ahead next month, it is more likely that the launch will be scheduled for September, after the summer holidays.

Under the proposed equity deal, the 10 teams would trade a share of their future revenues for individual stakes in the company, which is owned by family trusts of the wife of Mr Bernie Ecclestone, the businessman who built Formula One racing into a highly successful commercial enterprise.

This year, the teams are due to share 47 per cent of an estimated £200m in revenue. Formula One Holdings retains the other 53 per cent, out of which it pays an undisclosed flat fee to Fédération Internationale de l'Automobile, motor sport's world governing body. Formula One Holdings' contract to manage the commercial affairs of FAI Formula One world championship lasts until 2022.

Under a deal being discussed, the teams' aggregate stake in Formula One would amount to a significant minority, no less than the 10 per cent to be held by the FIA. Any deal would have to be neutral in its financial impact on the Ecclestone family interests.

The company's higher profitability – because it would need to pay out less money to the teams – would compensate for the reduction in the Ecclestone shareholding.

Babcock quits heavy contracting

By Tim Burt

Babcock International, the facilities management and materials handling group, yesterday announced its second dividend cut in six months, together with a hefty restructuring involving the sale or closure of three divisions.

The company, reporting annual pre-tax losses of £22m ($36m) said it planned to shut its dust recycling plant in the US, withdraw from operations in Africa and sell its process engineering arm.

Mr John Parker, chairman and acting chief executive, said the move would mark Babcock's withdrawal from heavy contracting after almost 10 years building industrial plants and equipment around the world.

The latest restructuring follows the £56m sale of its energy unit to Mitsui of Japan in 1995, and the overhaul last year of its German materials handling business.

"This is the final big rationalisation of the portfolio and, once complete, will leave us focused on two core divisions," said Mr Parker.

Babcock announced exceptional charges of £27.3m to cover write-offs and closure costs at its Caldwell environmental plant in Texas.

The loss of £22m – which came on reduced sales of £646m (£723.4m) in the year to March 31 – represented a sharp reduction from the £3.1m gain in 1995-96. However, that result was flattered by a £28.4m gain on the energy division's sale.

The final dividend has been halved from 1.75p to 0.875p, giving a reduced total for the year of 1.5p (3p).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amersham Intl	Yr to Mar 31	426.4	(351.4)	65.8	(50.8)	63.8	(53.2)	16	Aug 5	13.1	22	18
Anglian Group	Yr to Mar 29	226.4	(214)	20.2♥	(4.39♠)	15.5	(3.2)	5.4	Sept 5	4.5	9	7.5
Babcock Intl	Yr to Mar 31	646	(723.4)	22L♠	(3.1♥)	14.71L	(0.47)	0.875	Aug 12	1.75	1.5	3
British Thornton	Yr to Apr 30	5.81	(9.72)	0.687L♠	(7.13L♠)	2.6L	(42.9L)	-	-	-	-	-
BSS	Yr to Mar 31	333.2	(316.8)	12.5	(15.1)	30.2	(37.7)	14	Aug 4	14	20.5	20.5
BTP	Yr to Mar 31	404.5	(322.1)	48.2	(37.6♠)	20.25	(15.07)	7.7	Aug 15	7.35	11.75	11.2
Charles Stanley	Yr to Mar 31	17.3	(15.9)	2.08♠	(2.54)	13.64	(17.18)	0.25	July 11	2.75	3.825‡	3.5
Davenport Knitwear	Yr to Dec 31	11.4	(10.2)	2.45	(1.85)	9.53	(7.75)	9.85	Oct 1	9.6	9.85	9.6
Dee Valley	Yr to Mar 31	13.3	(11.8)	4.56♠	(5.81)	30.5	(40.32)	12.5	July 25	9.67	18	14.5
Drummond	Yr to Mar 31	56.7	(46.4)	1.5	(1.2♥)	5.17	(4)	1.5	Oct 1	1.1	2	1.5
Firstbus	Yr to Mar 31	551.5	(358.3)	51♠	(22♠)	16†	(7)	3.7	Aug 29	3.4	5.5	5
Great Portland	Yr to Mar 31	98.2□	(94.8□)	46	(47.8)	10.4	(10.6)	6.1	July 25	6.1	9	9
Hicking Pentecost	Yr to Mar 31	98.5	(85.9)	5.43♠	(8.4)	16.7	(20.3)	5	July 31	4.4	7.4	6.5
Leeds	6 mths to Mar 31	42	(31.2)	5.03	(3.27)	8.7	(7.4)	2.4	July 1	2.3	-	6.7
Macdonald Hotels	Yr to Mar 30	40.9	(22.6)	9.16	(4.78)	12.01	(9.32♠)	3	Aug 15	-	4.5	-
Marshalls	Yr to Mar 31	233.2	(237.4)	19.5♥	(25.8)	7.85	(11.83)	3.7	Oct 1	3.7	5.2	5.2
Matrix Healthcare Φ	6 mths to Mar 31	0.787	(0.457)	0.083	(0.074)	2.8†	(7.1)	3	July 25	3.75	-	8.75
Northern Foods	Yr to Mar 31	1,884	(1,957)	128.3♥	(119.8♠)	18.13	(14.98)	5.8	Oct 1	5.5	9.4	9
Scottish Highland	6 mths to Apr 30	7.38	(7.28)	0.749	(0.275)	2.8†	(2)	1.2	July 1	-	-	0.5
Severn Trent	Yr to Mar 31	1,215	(1,158)	366.5♠	(373)	87.2	(89.6)	22.16#	Aug 6	19.33	36.5	32.37
Stirling	Yr to Mar 31	101.8	(98.4)	5.12♠	(6.1♥)	3.86	(4.86)	1.67	Oct 3	1.57	2.3	2.2
Tamaris	Yr to Mar 31	19.1	(9.51)	2.65♥	(1.11♥)	0.46	(0.23)	0.05663	Aug 29	0.0514	0.08124	0.0727
Volex	Yr to Mar 31	177.3	(181)	14.4	(12.8♠)	34.3	(31)	13.65	Oct 1	13	21	20
Whitehead Mann	Yr to Mar 31	17	(12.8)	1.95♠	(1.2)	7.46	(5.56)	1.6	Aug 29	-	1.6	-
Widney	6 mths to Mar 29	18.9	(18.8)	0.167L♠	(0.712)	2.04L	(4.02)	1	Oct 6	1	-	3.5
Yates Brothers	Yr to Mar 30	75.7	(61.2)	10.5♥	(7.48)	21.5	(14)	2.88	Aug 13	2.4	4.32	3.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Second interim of 2.75p already paid. □Net rental income. ✠Pro forma. ΦAim stock. #Second interim of 3.84p also declared.

Soco in Mongolian discovery

Shares in Soco International, the UK oil and gas exploration company which recently came to the market, jumped 20½p to 256p yesterday after it announced a fourth oil discovery in Mongolia.

Soco said that after testing the Sotamo 19-3 well, the oil quality was about 37 degree API gravity, which was similar to that found in the 19-2 initial discovery well.

The company's plans included completion of the four discovery wells this summer and installation of production facilities.

Mr Ed Story, president and chief executive, said the new well marked a milestone in Mongolia's history, since it was the country's first recorded free flowing oil well.

INTERNATIONAL CAPITAL MARKETS

Venezuelan 10-year sees heavy demand

INTERNATIONAL BONDS

By Edward Luce

The Republic of Venezuela yesterday captured investors' imagination with its first dollar bond since 1993. In an otherwise unexceptional trading session, the 10-year $315m offering was heavily oversubscribed.

An official at ING Barings – sole arranger of the deal – said it had received orders totalling $1.2bn for the offering. About 55 per cent of the deal went to US investors, 30 per cent to Europe and the remainder to Asia.

Priced to yield 265 basis points over 10-year Treasuries, strong buying saw the paper tighten to a spread of 255 basis points in the secondary market. Traders said the country's rarity value – Venezuela's last dollar eurobond was redeemed in 1995 – and the absence of other interesting deals combined to provide strong demand.

"When there's an excess of demand over supply, offerings such as Venezuela's will always be snapped up," said one trader. However, with a credit rating of just B+ (upgraded from B by Standard & Poor's last week) some expressed disquiet at the enthusiasm for the deal.

"It was a good deal and Venezuela is a rare name but it is now trading well through the Argentine 10-year dollar bond, which does not accurately reflect their credit differentials," said a rival syndicate official.

Others, however, disagreed with the assertion that the market was getting "toppy". The growing possibility that Venezuela will follow Brazil, Mexico and others to launch a Brady swap operation was cited as a good reason to cash in on the country's improving credit story.

"Venezuela is unusual in having both a balance of payments surplus and public sector surplus," said a syndicate official.

Another added that the US Treasury's decision to cancel its July and October 10-year Treasury issuance would withdraw about $24bn of expected supply from the market. "There's a lot of liquidity out there which isn't suddenly going to be withdrawn," said a banker.

KfW INTERNATIONAL FINANCE, the German state-guaranteed financial house, reckoned there was little liquidity left in the overcrowded 10-year eurodollar sector yesterday, issuing a four-year deal of $250m.

Priced at 7 basis points over the three-year Treasury – roughly flat to the curve according to an official at Nikko Europe, sole lead manager – the bond was targeted at Benelux and Swiss retail investors. "There's a lot of demand out there but there's also a growing and sophisticated retail demand for unusual maturities," said one official.

● CYPRUS is to launch its debut eurobond in the next few days with its road-show starting today. The five-year note issue, which will kick off a medium-term note programme, will be denominated in US dollars.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
ABN Amro, Chicago Branch	750	(a)#	(a)R	Jun 2007	0.40R	(a)(6⅝%May07)	ABN Amro Hoare Govett
Gleneagles Funding(b)‡	520	(b1)	99.15	Jun 2012	0.50	-	Nomura International
Republic of Venezuela(i)	315	9.125#	99.735R	Jun 2007	1.00R	+265(6⅝%-07)	ING Barings
SBC Jersey Branch(i)	300	6.50	99.70R	Jul 2002	0.25R	+5(6⅝%May02)	SBC Warburg
KfW International Finance	250	6.375	99.75R	Jul 2001	0.225R	+7(6⅝%May00)	Nikko Europe
Korea Exchange Bank‡	200	(c)	100.00R	Jun 1998	0.05R	-	Commerzbank/RZB
SGZ Bank(d)‡	100	(d1)	99.745R	Mar 2002	0.175R	-	Commerzbank
Companhia Ultragaz(e)	60	9.00#	99.59R	Jun 2005	1.50R	+262½(6½-02)	Morgan Stanley DW
D-MARKS							
BayerVB, NY Branch(f)	2bn	4.50	98.89R	Jun 2002	0.25R	+18(4½Feb02)	BayerVB/Merrill Lynch
DSL Finance(g)	300	6.00	101.00R	Jan 2007	0.325R	+11(6%Jan07)	Deutsche/SBC Warburg
FRENCH FRANCS							
Bayerische Landesbank‡	500	(h)	100.325	Jul 2007	0.325	-	JP Morgan & Co
SWISS FRANCS							
ANA World Wings, Cay(j)★φ	385	0.125	101.875	Jun 2000	1.50	-	SBC Warburg
Helaba Intl Finance	250	3.00	102.90	Jul 2002	2.00	-	CSFB
City of Yokohama	120	3.75	102.75	Jul 2007	2.75	-	Bank of TM/SBC Warburg
AUSTRALIAN DOLLARS							
KfW International Finance	100	7.25	100.55	Jul 2007	2.00	-	Toronto Dominion Bank
WestLB Finance(Curaçao)	100	6.75	101.15	Jul 2002	2.00	-	Hambros Bank
LUXEMBOURG FRANCS							
Banque Intl à Luxembourg(i)	2bn	5.00	102.25	Dec 2002	1.875	-	BIL

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ★Unlisted. φWith equity warrants. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today approx 59bp over Treasuries. b) Extendable to Dec 2037. b1) 6-mth Libor +25bp. c) 3-mth Libor +45bp. d) Fungible with $250m. No accrued. d1) 3-mth Libor flat. e) Callable & puttable on 18/6/02 at 99.50%. f) Oeffentliche Pfandbrief. g) Fungible with DM1bn. Plus 160 days accrued. h) 4½% to 10/7/02, then Tec-10 +8bp. j) Denom: SFr50,000 + 50 wrts to All Nippon Airways. Ex price: Y744. FX: 77.92 Y/SFr. Downward revision clause in 1 yr; max 80%. i) Long 1st coupon.

Global format pfandbrief first

By Samer Iskandar

Bayerische Vereinsbank yesterday launched its first pfandbrief in a global format – DM2bn of five-year bonds. It was also the first global pfandbrief to be offered publicly in the US under Rule 3(a)2 of the Securities and Exchange Commission.

Pfandbrief bonds, which are backed by loans, are the largest fixed-income market in Europe – accounting for 12 per cent of all European bonds, according to Bayerische Vereinsbank. More are being issued in currencies other than the D-Mark.

US tranches of previous global pfandbrief bonds were always placed under the SEC's Rule 144a, which allows sales only to qualified institutions. Under Rule 3(a)2, lead managers can offer the bonds to any investor. They are also allowed to pre-market them, whereas bankers are not allowed to talk publicly about offerings under Rule 144a.

Yesterday's deal was distributed as follows: 30 per cent to US investors, 23 per cent in the Far East, 26 per cent in Germany, and 21 per cent in the rest of Europe.

But distribution varied among underwriters. Merrill Lynch, which led the deal jointly with the issuer, placed 60 per cent of its allotment in the US; Bayerische Vereinsbank sold a large proportion in Germany.

Although 90 per cent of US buyers were institutions that would have qualified under Rule 144a, the leads felt a public offering would ensure greater liquidity in the secondary market.

Overseas buying bolsters US Treasuries

GOVERNMENT BONDS

By Jane Martinson in New York and Michael Lindemann in London

US TREASURY prices rose at mid-session yesterday, helped by a slightly stronger dollar and doubts over Europe. The benchmark 30-year bond rose ⅜ to 97⅝, yielding 6.809 per cent, slightly below early morning highs.

Overseas buying appeared to dominate in the morning. There was also some swap-related buying in a relatively light market.

Mr Stephen Slifer, chief markets economist at Lehman Brothers, said there were fundamental reasons for the current bullishness.

"There's a recognition that the economy has cooled down a bit and part of what's going on here is just a recognition of the budget deficit."

He said that Monday's announcement of the cancellation of 10-year auctions had led the market "to wake up to the fact that the deficit is going to shrink".

He is among what currently appears to be a small majority of strategists who think the Federal Reserve will not raise rates at the July meeting of its open market committee. His view is based on a shrinking budget deficit and weaker second-quarter growth.

Mr Slifer forecast more buying as fears over Emu deepened. "There is a growing recognition that Europe is a mess," he said. Treasuries would benefit from a "flight to quality".

The two-year note was unchanged at 100⅛, yielding 6.129 per cent, while the 10-year bond added 1/32 at 100%, yielding 6.529 per cent.

Most European bond markets drifted sideways yesterday, in the absence of economic data or comments about European monetary union to fret over.

GERMAN BUNDS set a rather indifferent tone. While they outperformed US Treasuries – with the spread of Treasuries over bunds widening from 82 to 89 basis points – analysts said there was evidence that investors were quitting Europe and heading for the dollar bloc.

Most analysts suggested little was likely to happen until Germany and France can resolve their differences, possibly at their summit in Poitiers on Friday.

The September long bund future settled at 100.89, up 0.19 on the day.

FRENCH OATs were slightly weaker, with the June notional future settling at 129.48, down 0.08. Even domestic investors, who have shored up the market in recent weeks, seemed to be keeping to the sidelines, analysts said. "Domestics have the cash to invest but really caution is winning at the moment," one said.

UK GILTS mirrored their continental counterparts, going nowhere in particular. Mr Andrew Roberts, gilts analyst at UBS, suggested the market was running scared on rumours about the July budget, including reports that Mr Gordon Brown, the chancellor, would not cut mortgage interest tax relief.

"It's difficult to see gilts substantially outperforming ahead of the budget," Mr Roberts said. "The market's just trading on rumours at the moment." The September long gilt future settled at 113¾, down ⅛.

SPANISH BONOS were among the few bonds to show any gains, with the long end benefiting at the expense of shorter maturities. "Good Spanish fundamentals are supporting the long end while Emu uncertainty is taking its toll on the peseta and the short end," one trader said.

The gains were supported by comments from Mr Cristobal Montoro, economics minister, who said May inflation was likely to be 1.5 per cent, down from 1.7 per cent in April.

Further interest rate cuts looked unlikely, however, because the peseta remains weak against the D-Mark, analysts said.

Chartists saw first resistance at 115.68 and then at 115.80. The June bono future settled at 115.78, up 0.72, while the spread over bunds tightened 8 basis points to 79 points.

ITALIAN BTPs recovered some ground. The September BTP future settled at 129.88, up 0.41.

LatInvest to launch Central American fund

By Edward Luce

BBV LatInvest, the London-based subsidiary of the Spanish bank, is to launch an investment fund dedicated to Central American and Caribbean stocks.

The $20m-$50m closed-end fund, which will be modelled closely on successful Latin American funds, will be incorporated in the Cayman Islands and listed on the Dublin stock exchange.

Mr Federico Wynne, an investment analyst at LatInvest, said that the fund would invest in 11 stock exchanges in the region. "Central America has been completely overlooked by portfolio investors," he said. "We think the region has a lot of growth potential for investors to buy into."

However, the decision of El Salvador's parliament yesterday to repeal legislation to privatise Antel, the telecommunications operator, was a reminder that reform is not a smooth process in Central America.

The managers of the Quentzal Fund – named after a rare bird – say they will "stock-pick" rather than index their investments. With collective market capitalisation as low as $6.7bn in 1996 the region is expected to show strong growth over the next few years.

"Until recently local investors focused on fixed-income instruments in Central America because real interest rates were so high," said Mr Wynne. "Inflation is now falling fast, so funds are moving into equities."

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	95.5720	-0.520	7.41	7.35	7.79
Austria		5.750	04/07	99.6000	+0.300	5.80	5.85	5.82
Belgium		6.250	03/07	102.7300	+0.100	5.87	5.92	5.94
Canada *		7.250	06/07	106.8000	+0.570	6.32	6.51	6.59
Denmark		8.000	03/06	111.3600	-0.110	6.27	6.29	6.42
France	BTAN	4.750	03/02	100.1615	-0.040	4.71	4.70	4.75
	OAT	5.500	04/07	98.2600	-	5.73	5.73	5.75
Germany Bund		8.000	07/07	101.8400	+0.080	5.78	5.84	5.82
Ireland		8.000	08/06	108.5200	+0.040	6.72	6.63	6.67
Italy		6.750	02/07	97.3000	+0.340	7.14†	7.07	7.50
Japan	No 145	5.500	03/02	118.6116	+0.040	1.73	1.87	1.58
	No 182	3.000	09/05	103.5699	-0.110	2.48	2.58	2.33
Netherlands		5.750	02/07	100.7600	+0.180	5.64	5.71	5.64
Portugal		9.500	02/06	0.0000	-	0.00	6.63	6.71
Spain		7.350	03/07	105.4600	+0.730	6.56	6.55	6.81
Sweden		8.000	08/07	107.3882	+0.300	6.96	6.95	7.31
UK Gilts		7.000	06/02	99-29	-	7.02	6.96	7.13
		7.250	12/07	100-31	-1/32	7.12	7.09	7.40
		9.000	10/08	113-30	-1/32	7.18	7.15	7.49
US Treasury *		6.625	05/07	100-21	-5/32	6.53	6.64	6.89
		6.625	02/27	97-20	-4/32	6.81	6.89	6.93
ECU (French Govt)		7.000	04/06	106.3600	+0.050	6.05	5.98	6.08

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	6.13
Broker loan rate	7¾	Two month	-	Three year	6.29
Fed.funds	5⅝	Three month	5.01	Five year	6.42
Fed.funds at intervention	5⅜	Six month	5.40	10-year	6.53
		One year	5.71	30-year	6.81

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	129.48	129.48	-0.08	129.58	129.32	6,737	107,564
Sep	127.78	127.84	-0.09	127.92	127.68	809	111,924
Dec	96.84	96.90	-0.06	96.84	96.84	2	575

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	Jul	Sep	PUTS Jun	Jul	Sep
126	1.92	2.16	2.37	0.09	0.36	0.55
127	1.08	1.44	1.69	0.24	0.61	0.85
128	0.43	0.83	1.08	0.59	0.99	1.24
129	0.11	0.42	0.64	1.27	1.57	1.79
130	0.02	0.16	0.33	-	-	-

Est. vol. total, Calls 6,610 Puts 18,144. Previous day's open int., Calls 126,238 Puts 160,795.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100.71	100.89	+0.19	100.92	100.60	132049	226368
Dec		99.89	+0.19			0	250

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
10050	0.67	0.99	1.20	1.24	0.28	0.60	0.81	1.75
10100	0.37	0.71	0.92	1.03	0.48	0.82	1.03	2.04
10150	0.18	0.49	0.68	0.85	0.79	1.10	1.29	2.36

Est. vol. total, Calls 17834 Puts 17321. Previous day's open int., Calls 184307 Puts 183303

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	129.45	129.88	+0.41	129.94	129.07	74407	83888
Dec		103.23	+0.51			0	300

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
12950	2.05	0	1.67	26.27
13000	1.78	0	1.90	26.77
13050	1.51		2.13	

Est. vol. total, Calls 2465 Puts 4224. Previous day's open int., Calls 37228 Puts 43076

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	115.02	115.78	+0.72	115.81	114.92	116,682	72,704
Sep	114.26	114.96	+0.71	114.98	114.12	11,793	34,720

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113-27	113-28	+0-21	113-30	113-17	6447	6344
Sep	113-18	113-16	-0-01	113-19	113-04	70824	153516

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
113	0-58	1-25	1-47	2-14	0-26	0-57	1-15	2-06
114	0-26	0-56	1-15	1-48	0-58	1-24	1-47	2-40
115	0-10	0-32	0-52	1-23	1-42	2-00	2-20	3-15

Est. vol. total, Calls 3472 Puts 75. Previous day's open int., Calls 41133 Puts 23719

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	94.86	95.00	-0.02	95.04	94.86	40	4,460
Sep	94.46	94.60	-	94.60	94.46	226	2,210

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	111-00	111-08	+0-08	111-12	111-00	18,578	134,040
Sep	110-20	110-26	+0-09	110-31	110-16	308,214	348,600
Dec	110-08	110-16	+0-10	110-18	110-06	769	24,731

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	123.13			123.24	123.13	1026	na
Dec						0	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Jun 10	Day's change %	Mon Jun 9	Accrued interest	xd adj. ytd		Low coupon yield Jun 10	Jun 9	Yr. ago	Medium coupon yield Jun 10	Jun 9	Yr. ago	High coupon yield Jun 10	Jun 9	Yr. ago
1 Up to 5 years (20)	119.65	0.01	119.64	1.87	5.38	5 yrs	7.05	7.04	7.41	7.11	7.10	7.45	7.16	7.15	7.55
2 5-15 years (20)	151.63	-0.01	151.65	1.84	5.93	15 yrs	7.14	7.14	8.24	7.18	7.18	8.25	7.18	7.18	8.34
3 Over 15 years (6)	178.82	-0.02	178.85	5.17	5.02	20 yrs	7.18	7.17	8.33	7.19	7.18	8.32	7.18	7.18	8.39
4 Irredeemables (5)	206.82	-0.02	206.86	1.60	7.10	Irred.†	7.27	7.27	8.38						
5 All stocks (51)	146.23	-0.01	146.23	2.47	5.68										

Index-linked	Tue Jun 10	Day's change %	Mon Jun 9	Accrued interest	xd adj. ytd		Inflation 5% Jun 10	Jun 9	Yr. ago	Inflation 10% Jun 10	Jun 9	Yr. ago
6 Up to 5 years (2)	204.50	0.01	204.48	1.16	3.03	Up to 5 yrs	3.58	3.56	2.81	2.94	2.94	1.42
7 Over 5 years (10)	196.32	0.02	196.29	1.51	2.88	Over 5 yrs	3.67	3.67	3.85	3.47	3.47	3.66
8 All stocks (12)	196.12	0.02	196.08	1.47	2.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 10	Jun 9	Jun 6	Jun 5	Jun 4	Yr ago	High*	Low*
Govt. Secs. (UK)	95.52	95.44	96.51	96.36	96.48	92.44	97.51	93.31
Fixed Interest	120.63	120.70	120.80	120.84	120.42	111.64	121.56	115.32

Gilt Edged Activity Indices

	Jun 9	Jun 6	Jun 5	Jun 4	Jun 3
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

* for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until further notice.

UK GILTS PRICES

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 10

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	98⅝	98⅞	-⅛	6.79
ABN Amro Bank 7¼ 05	1000	101⅛	101⅜	-⅛	7.19
Spain 7¼ 03	4000	110¾	110¾	+⅛	5.04
Volkswagen Intl Fin 7 03	1000	108	108¼		5.39
World Bank 5¾ 03	3000	104⅝	104⅞	+⅛	5.05
Abbey Natl Treasury 8 03 £	1000	102	102¼	-⅛	7.55
British Land 8⅞ 23 £	150	104½	104⅞		8.82

[illegible]

CURRENCIES AND MONEY

Emu fears on hold as D-Mark falls

MARKETS REPORT

By Wolfgang Münchau and Richard Adams

The D-Mark's recovery on the foreign exchange markets was short-lived, as yesterday it was knocked backwards against the US dollar, sterling and Japanese yen.

But the D-Mark still managed to make up some ground against other European cross-rates.

Sterling made the strongest move of the day against the D-Mark. It started the day in London at DM2.7915, its lowest level for 11 days, but gained more than two pfennigs to end at DM2.8141. The pound also outpaced the dollar, and its trade-weighted index rose 0.7 to close at 99.7.

Overall volume on the markets was low, as doubts over European monetary union and a huge Japanese current account surplus left traders uncertain.

■ The French government may soon have all its worst conspiracy theories about financial markets confirmed. The "speculators" – as they are affectionately known in France – are beginning to line up against the French franc and other European currencies, hoping to exploit uncertainty about economic and monetary union (Emu).

From the point of view of macro hedge funds, Emu could be the best game in town since the last days of the old exchange-rate mechanism, parts of which blew apart in 1992, when sterling and the lira were forced out.

Macro hedge funds enjoyed tremendous gains in 1992, but have had a mixed record since. Many fund managers got burnt in the 1994 bond market crash, and some lost out over $-yen more recently. But if the hedge funds get it right, Emu could be another ERM, a potential for huge profits.

One senior hedge fund adviser said the world's largest macro funds were already carefully positioning themselves for a strike against the "peripheral" European currencies, in the event that Emu flounders within the next two weeks.

"We are not yet at a stage where we are actively going short on the lira, the peseta and the [French] franc, but we have definitely unwound our long positions [in these currencies]," he said. If France and Germany failed to agree on the final text of the stability and growth pact, to be signed at the EU summit next week, investors could pile into D-Marks. The next two weeks are likely to be crucial.

There are some caveats in this scenario. Mr Dominique Strauss-Kahn, the French finance and industry minister, only asked for a delay meeting this week, and EU leaders could still make a deal during an emergency summit in July. The German government will not agree to a renegotiation of the pact itself, but might reluctantly accept a special "jobs protocol" if that helps the French overcome their *angst* over Emu. This would still be seen as a French climbdown, but the two countries are running out of alternatives.

Whatever the outcome, there are now two crisis scenarios for the currency markets. Either the situation comes to a peak within the next ten days, or else the fateful decision is delayed for a few weeks. The second option appeared to be gaining ground yesterday, but could change quickly.

Either way, a failure would trigger a surge in the D-Mark against the dollar. There would be especially strong increases in the D-Mark against the peseta, the lira, the French franc, and the Swiss franc.

■ While the dollar-yen rate is taking much of the markets' attention, Mr Marc Chandler, of Deutsche Morgan Grenfell's New York office, says the D-Mark-yen cross-rate is the one to watch in coming weeks.

"Mark-yen is the axis against which the two major themes in the currency markets are going to be played – the weak Euro, and Japanese officials trying to keep dollar-yen to within a range of Y110-Y120," Mr Chandler said.

The D-Mark fell to Y65.2 on Monday, its lowest level since August 1995. The D-Mark recovered to Y65.64 by midday in Europe yesterday, when trade dropped off in anticipation of the announcement of Japan's trillion yen April current account surplus.

Mr Chandler predicts the D-Mark could lose a further 10 per cent against the yen, and fall beneath Y60, its lowest level since mid-1995.

Swiss Franc

Against the D-Mark (SFr per DM)

■ Pound in New York

Jun 10	—Latest—	— Prev. close —
£ spot	1.6370	1.6370
1 mth	1.6359	1.6358
3 mth	1.6335	1.6335
1 yr	1.6230	1.6228

■ OTHER CURRENCIES

Jun 10	£	$
Czech Rp	52.4167 - 52.8425	31.9600 - 32.1000
Hungary	301.283 - 301.559	183.800 - 183.900
Iran	4918.40 - 4918.40	3000.00 - 3000.00
Kuwait	0.4940 - 0.4957	0.3020 - 0.3023
Poland	5.2768 - 5.2943	3.2210 - 3.2225
Russia	9438.49 - 9448.53	5760.00 - 5762.00
UAE	6.0108 - 6.0231	3.6726 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 10		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.8057	+0.1581	954 - 160	19.8160	19.6374	19.7522	3.2	19.6642	2.9	-	-	103.0
Belgium	(BFr)	58.0927	+0.4786	381 - 473	58.1473	57.5990	57.9377	3.2	57.6227	3.2	56.1927	3.3	102.8
Denmark	(DKr)	10.7129	+0.0815	074 - 184	10.7184	10.6287	10.6874	2.9	10.6349	2.9	10.4134	2.8	105.5
Finland	(FM)	8.4510	+0.0471	431 - 589	8.4660	8.3930	-	-	-	-	-	-	82.2
France	(FFr)	9.5203	+0.0841	157 - 248	9.5248	9.4298	9.4981	3.1	9.4482	3.0	9.2256	3.1	105.2
Germany	(DM)	2.8141	+0.0221	128 - 154	2.8160	2.7896	2.8085	3.2	2.7905	3.4	2.7202	3.3	104.0
Greece	(Dr)	448.414	+3.585	195 - 633	448.633	441.955	-	-	-	-	-	-	65.0
Ireland	(I£)	1.0817	+0.0005	805 - 827	1.0840	1.0795	1.0816	-0.1	1.0808	0.3	1.0738	0.7	98.8
Italy	(L)	2784.35	+26.98	395 - 835	2785.35	2758.31	2788.25	-0.8	2787.85	-0.5	2773.75	0.4	75.8
Luxembourg	(LFr)	58.0927	+0.4786	381 - 473	58.1473	57.5990	57.9377	3.2	57.6227	3.2	56.1927	3.3	102.8
Netherlands	(Fl)	3.1654	+0.0242	640 - 669	3.1668	3.1398	3.1589	3.2	3.1399	3.3	3.0609	3.3	102.4
Norway	(NKr)	11.7563	+0.1317	466 - 659	11.7600	11.5960	11.7238	3.1	11.6683	3.1	11.4203	2.9	97.5
Portugal	(Es)	285.009	+2.211	340 - 178	285.178	282.847	284.859	0.5	284.484	0.7	-	-	93.3
Spain	(Pta)	238.426	+2.041	314 - 542	238.542	236.310	238.268	0.8	237.829	1.0	235.073	1.4	77.4
Sweden	(SKr)	12.7726	+0.1019	625 - 826	12.7907	12.6791	12.7511	2.0	12.7091	2.2	12.5091	2.1	82.9
Switzerland	(SFr)	2.3657	+0.0164	641 - 672	2.3672	2.3472	2.3583	4.7	2.3372	4.8	2.2392	4.2	104.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.7
Ecu	-	1.4477	+0.0123	466 - 488	1.4486	1.4313	1.445	2.2	1.4391	2.4	1.412	2.5	-
SDR†	-	1.171653											
Americas													
Argentina	(Peso)	1.6391	+0.0059	385 - 396	1.6402	1.6329	-	-	-	-	-	-	-
Brazil	(R$)	1.7582	+0.0048	574 - 590	1.7594	1.7524	-	-	-	-	-	-	-
Canada	(C$)	2.2754	+0.0096	743 - 765	2.2765	2.2654	2.2691	3.3	2.2577	3.1	2.2159	2.6	84.0
Mexico	(New Peso)	13.0570	+0.0079	449 - 692	13.0726	13.0349	-	-	-	-	-	-	-
USA	($)	1.6393	+0.0051	388 - 396	1.6405	1.6330	1.6381	0.9	1.6359	0.8	1.6277	0.7	102.1
Pacific/Middle East/Africa													
Australia	(A$)	2.1521	+0.0053	507 - 534	2.1534	2.1444	2.1515	0.3	2.1496	0.5	2.1395	0.6	82.9
Hong Kong	(HK$)	12.6915	+0.0371	868 - 962	12.6999	12.6438	12.6855	0.6	12.6749	0.5	12.6402	0.4	-
India	(Rs)	58.6376	+0.1792	707 - 048	58.7048	58.4490	-	-	-	-	-	-	-
Israel	(Shk)	5.5783	+0.0247	696 - 830	5.5830	5.5531	-	-	-	-	-	-	-
Japan	(Y)	184.715	-0.45	574 - 855	185.200	183.970	183.656	6.9	181.848	6.6	172.831	6.4	134.8
Malaysia	(M$)	4.1222	+0.0153	201 - 243	4.1244	4.1040	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3708	+0.0043	692 - 724	2.3723	2.3665	2.3708	0.1	2.3718	-0.1	2.3768	-0.3	112.7
Philippines	(Peso)	43.2333	+0.1247	906 - 760	43.2760	43.2354	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1482	+0.0191	455 - 509	6.1519	6.1288	-	-	-	-	-	-	-
Singapore	(S$)	2.3270	+0.0077	255 - 285	2.3285	2.3219	-	-	-	-	-	-	-
South Africa	(R)	7.3785	+0.0233	738 - 832	7.3890	7.3599	-	-	-	-	-	-	-
South Korea	(Won)	1460.62	+4.55	607 - 516	1465.16	1456.07	-	-	-	-	-	-	-
Taiwan	(T$)	45.6791	+0.1258	242 - 340	45.7340	45.5352	-	-	-	-	-	-	-
Thailand	(Bt)	39.3105	-0.6457	165 - 044	42.1490	39.0930	-	-	-	-	-	-	-

† Rates for Jun 9. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http//www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Eng. Index
Europe													
Austria	(Sch)	12.0818	+0.0578	792 - 844	12.0844	11.9985	12.0593	2.2	12.0106	2.6	11.7818	2.5	102.7
Belgium	(BFr)	35.4375	+0.1825	150 - 600	35.4600	35.1790	35.3625	2.5	35.2075	2.6	34.4675	2.7	102.9
Denmark	(DKr)	6.5351	+0.0236	337 - 364	6.5390	6.4917	6.5233	2.2	6.4996	2.2	6.3865	2.3	104.9
Finland	(FM)	5.1553	+0.0128	520 - 586	5.1641	5.1227	5.1434	2.8	5.119	2.8	5.0108	2.8	81.6
France	(FFr)	5.8075	+0.0335	065 - 085	5.8077	5.7830	5.7958	2.4	5.7731	2.4	5.658	2.5	104.8
Germany	(DM)	1.7167	+0.0082	164 - 169	1.7171	1.7040	1.713	2.6	1.7053	2.7	1.6683	2.8	103.7
Greece	(Dr)	273.540	+1.34	490 - 590	273.620	272.160	274.425	-3.9	276.065	-3.5	282.24	-3.2	64.6
Ireland	(I£)	1.5155	+0.0044	145 - 165	1.5195	1.5104	1.5149	0.5	1.5143	0.3	1.511	0.3	-
Italy	(L)	1698.50	+11.2	780 - 920	1699.20	1685.00	1700.4	-1.3	1703.1	-1.1	1705.35	-0.4	75.7
Luxembourg	(LFr)	35.4375	+0.1825	150 - 600	35.4600	35.1790	35.3625	2.5	35.2075	2.6	34.4675	2.7	102.9
Netherlands	(Fl)	1.9310	+0.0098	307 - 312	1.9318	1.9174	1.9269	2.5	1.9183	2.6	1.8779	2.6	102.4
Norway	(NKr)	7.1715	+0.0568	660 - 740	7.1740	7.0808	7.1542	2.9	7.1288	2.4	7.003	2.3	97.3
Portugal	(Es)	173.860	+0.81	810 - 910	173.910	172.810	173.845	0.1	173.78	0.2	172.47	0.8	93.6
Spain	(Pta)	145.445	+0.785	420 - 470	145.470	144.460	145.445	0.0	145.368	0.2	144.11	0.9	77.0
Sweden	(SKr)	7.7915	+0.058	877 - 952	7.8068	7.7485	7.7821	1.4	7.7615	1.5	7.667	1.6	82.6
Switzerland	(SFr)	1.4431	+0.0055	426 - 436	1.4440	1.4347	1.4383	4.0	1.4285	4.0	1.3858	4.2	104.4
UK	(£)	1.6393	+0.0051	388 - 398	1.6405	1.6330	1.6381	0.9	1.6359	0.8	1.6277	0.7	98.8
Ecu		1.1324	-0.0061	318 - 329	1.1430	1.1315	1.1339	-1.5	1.1372	-1.7	1.1548	-2.0	-
SDR†		0.71713											
Americas													
Argentina	(Peso)	0.9999	+0.0005	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0726	-0.0003	724 - 727	1.0727	1.0725	-	-	-	-	-	-	-
Canada	(C$)	1.3881	+0.0016	878 - 883	1.3883	1.3855	1.3851	2.6	1.3796	2.4	1.3606	2.0	83.7
Mexico	(New Peso)	7.9650	-0.02	600 - 700	7.9700	7.9600	8.0735	-16.3	8.275	-15.6	[illegible]	-18.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	102.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3128	-0.0008	123 - 132	1.3132	1.3122	1.3132	-0.4	1.3133	-0.2	1.3123	0.0	94.8
Hong Kong	(HK$)	7.7420	-0.0015	415 - 425	7.7450	7.7417	7.743	-0.2	7.7444	-0.1	7.7545	-0.2	-
India	(Rs)	35.7700	-0.0002	400 - 000	35.7770	35.7650	35.86	-3.0	36.145	-4.2	39.95	[illegible]	-
Israel	(Shk)	3.4017	+0.0048	995 - 047	3.4045	3.3955	-	-	-	-	-	-	-
Japan	(Y)	112.680	-0.87	630 - 730	113.130	112.260	112.125	5.9	111.02	5.9	106.12	5.8	135.8
Malaysia	(M$)	2.5148	+0.0019	141 - 151	2.5158	2.5075	2.5169	-1.1	2.521	-1.0	2.5379	-0.9	-
New Zealand	(NZ$)	1.4462	-0.0019	457 - 468	1.4484	1.4461	1.447	-0.7	1.4494	-0.9	1.4595	-0.9	-
Philippines	(Peso)	26.3910	-0.006	550 - 910	26.3910	26.3550	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	500 - 510	3.7510	3.7500	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4195	+0.0003	190 - 200	1.4215	1.4187	1.4179	1.4	1.4138	1.6	1.392	1.9	-
South Africa	(R)	4.5010	+0.0002	995 - 025	4.5045	4.4995	4.5405	-10.5	4.618	-10.4	4.916	-9.2	-
South Korea	(Won)	891.000	-	500 - 500	893.500	888.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.8650	-0.01	400 - 900	27.8900	27.8400	27.8656	0.0	27.867	0.0	27.8712	0.0	-
Thailand	(Bt)	23.9800	-0.47	300 - 300	25.7450	23.9000	24.0413	-3.1	24.165	-3.1	24.735	-3.1	-

† SDR rate per $ for Jun 9. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 9: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http//www.FT.com

WORLD INTEREST RATES

MONEY RATES

June 10	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅛	3⅛	3⅛	3¼	6.00	2.50	-
France	3⅛	3⅛	3¼	3⅞	3⅞	3.10	-	4.75
Germany	3⅛	3	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5⅞	6⅛	6⅛	6⅛	6⅛	-	-	6.75
Italy	6⅞	6⅞	6⅞	6⅞	6⅞	8.25	6.75	6.78
Netherlands	3⅛	3⅛	3⅛	3¼	3½	-	2.50	2.90
Switzerland	1⅛	1⅛	1¼	1¼	1⅞	-	1.00	-
US	5½	5⅝	5¾	6	6⅛	-	5.00	-
Japan	½	½	½	⅝	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.48	5.61	5.72	5.98	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 10	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3¼	3⅞ - 3¼	3⅞ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅞ - 3⅞
Danish Krone	3⅞ - 3⅞	3⅞ - 3½	3⅝ - 3½	3⅝ - 3½	3⅞ - 3⅝	3⅞ - 3⅞
German Mark	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3⅛	3⅜ - 3¼
Dutch Guilder	3⅞ - 3⅛	3⅞ - 3⅛	3¼ - 3⅛	3⅞ - 3⅛	3⅞ - 3⅛	3⅛ - 3⅞
French Franc	3⅞ - 3⅛	3⅞ - 3⅞	3⅞ - 3⅞	3½ - 3⅞	3⅞ - 3½	3⅞ - 3⅞
Portuguese Esc.	6⅛ - 6	6⅛ - 6	6⅛ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5½ - 5⅛
Spanish Peseta	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5¾	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞
Sterling	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6½	6⅞ - 6⅞	6⅞ - 6¾	7⅞ - 7⅞
Swiss Franc	1¼ - 1	1¼ - 1	1⅜ - 1¼	1½ - 1⅜	1⅞ - 1⅞	1⅞ - 1⅞
Canadian Dollar	3 - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅞ - 3⅛	3⅞ - 3⅞	4⅛ - 3⅞
US Dollar	5½ - 5¼	5⅝ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6⅛
Italian Lira	7½ - 6½	7 - 6⅞	7 - 6⅞	7 - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞
Japanese Yen	⅞ - ½	0⅞ - 0⅞	0⅞ - 0⅞	0⅞ - 0⅞	0⅞ - 0⅞	0⅞ - 0⅞
Asian $Sing	2¾ - 2⅝	3 - 2⅞	3¼ - 3⅛	3½ - 3⅜	3⅞ - 3⅞	3⅝ - 3½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.50	96.48	-0.04	96.52	96.46	1,563	57,520
Sep	96.41	96.37	-0.05	96.41	96.33	2,925	64,181
Dec	96.41	96.37	-0.05	96.42	96.34	11,632	34,980

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.84	96.86	+0.02	96.87	96.84	27376	194311
Sep	96.80	96.82	+0.02	96.82	96.80	24884	234071
Dec	96.71	96.72	+0.02	96.72	96.70	25684	250305
Mar	96.61	96.61	+0.01	96.62	96.60	21685	228049

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.88	96.89	+0.02	96.89	96.88	800	2042
Jul	96.86	96.88	+0.02	96.86	96.85	10	361
Aug	96.84	96.86	+0.02	96.84	96.84	10	130
Sep		96.85	+0.02			0	3

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.05	93.03	-0.02	93.07	93.01	9732	72867
Sep	93.25	93.25	-	93.27	93.21	25513	116044
Dec	93.47	93.47	-0.01	93.50	93.43	10805	63124
Mar	93.60	93.59	-0.02	93.63	93.56	4577	38732

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.47	98.53	+0.03	98.55	98.44	12235	37409
Sep	98.38	98.44	+0.04	98.49	98.34	10588	57915
Dec	98.22	98.28	+0.04	98.28	98.20	4206	35616
Mar	98.10	98.17	+0.04	98.17	98.10	1089	15481

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.38	99.37	-0.02	99.38	99.38	1	na
Sep		99.23	-			0	na
Dec		98.96	+0.01			0	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.82	95.80	-	95.82	95.79	578	6645
Sep	95.78	95.77	-	95.79	95.76	900	7226
Dec	95.76	95.75	-	95.76	95.74	250	5509
Mar	95.69	95.68	-0.01	95.69	95.68	6	3934

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9300	0.08	0.42	0.69	0.05	0.17	0.22
9325	0.01	0.27	0.51	0.23	0.27	0.29
9350	0	0.15	0.36	0.47	0.40	0.39

Est. vol. total, Calls 6123 Puts 3735. Previous day's open int., Calls 187570 Puts 94217

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 10		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.44	16.39	4.844	1.862	4793	5.449	20.24	490.6	410.4	21.99	4.072	1.721	3.917	2.822	318.0	2.492
Denmark	(DKr)	54.23	10	8.887	2.627	1.010	2599	2.955	10.97	266.0	222.6	11.92	2.208	0.933	2.124	1.530	172.4	1.351
France	(FFr)	61.02	11.25	10	2.956	1.136	2925	3.325	12.35	299.4	250.4	13.42	2.485	1.050	2.390	1.722	194.0	1.521
Germany	(DM)	20.64	3.807	3.383	1	0.384	989.4	1.125	4.178	101.3	84.72	4.539	0.841	0.355	0.809	0.583	65.64	0.514
Ireland	(I£)	53.71	9.904	8.801	2.602	1	2574	2.926	10.87	263.5	220.4	11.81	2.187	0.924	2.104	1.516	170.8	1.338
Italy	(L)	2.086	0.385	0.342	0.101	0.039	100	0.114	0.422	10.24	8.563	0.459	0.085	0.036	0.082	0.059	6.634	0.052
Netherlands	(Fl)	18.35	3.384	3.006	0.889	0.342	879.6	1	3.714	90.04	75.32	4.035	0.747	0.316	0.719	0.518	58.35	0.457
Norway	(NKr)	49.41	9.113	8.098	2.394	0.920	2368	2.693	10	242.4	202.8	10.86	2.012	0.851	1.936	1.394	157.1	1.231
Portugal	(Es)	20.38	3.759	3.340	0.987	0.380	976.9	1.111	4.125	100	83.66	4.481	0.830	0.351	0.798	0.575	64.81	0.508
Spain	(Pta)	24.36	4.493	3.993	1.180	0.454	1168	1.328	4.931	119.5	100	5.357	0.992	0.419	0.954	0.688	77.47	0.607
Sweden	(SKr)	45.48	8.387	7.454	2.203	0.847	2180	2.478	9.204	223.1	186.7	10	1.852	0.783	1.782	1.283	144.6	1.133
Switzerland	(SFr)	24.56	4.529	4.024	1.190	0.457	1177	1.338	4.970	120.5	100.8	5.399	1	0.423	0.962	0.693	78.08	0.612
UK	(£)	58.09	10.71	9.520	2.814	1.082	2784	3.165	11.76	285.0	238.4	12.77	2.366	1	2.276	1.639	184.7	1.448
Canada	(C$)	25.53	4.708	4.184	1.237	0.475	1224	1.391	5.166	125.3	104.8	5.613	1.040	0.439	1	0.720	81.18	0.636
USA	($)	35.44	6.535	5.808	1.717	0.660	1699	1.931	7.172	173.9	145.4	7.792	1.443	0.610	1.388	1	112.7	0.883
Japan	(Y)	31.45	5.800	5.154	1.524	0.586	1507	1.714	6.364	154.3	129.1	6.915	1.281	0.541	1.232	0.887	100	0.784
Ecu	-	40.13	7.400	6.576	1.944	0.747	1923	2.187	8.121	196.9	164.7	8.823	1.634	0.691	1.572	1.132	127.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5857	0.5835	-0.0024	0.5847	0.5835	41,621	59,157
Sep	0.5897	0.5874	-0.0024	0.5887	0.5874	33,489	42,196
Dec	0.5921	0.5921	-0.0018	0.5921	0.5921	41	469

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6978	0.6947	-0.0011	0.6978	0.6931	24,761	28,686
Sep	0.7036	0.7022	-0.0011	0.7050	0.7004	21,982	22,179
Dec	0.7095	0.7095	-0.0014	0.7103	0.7095	45	633

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8858	0.8909	+0.0056	0.8912	0.8853	59,972	61,210
Sep	0.8982	0.9030	+0.0059	0.9034	0.8966	30,875	34,714
Dec	0.9120	0.9120	+0.0031	0.9120	0.9120	17	895

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6366	1.6365	+0.0012	1.6390	1.6340	20,371	32,184
Sep	1.6312	1.6336	+0.0016	1.6358	1.6302	15,430	18,788
Dec	1.6300	1.6318	+0.0022	1.6318	1.6300	1	115

UK INTEREST RATES

LONDON MONEY RATES

Jun 10	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅜ - 4	6⅛ - 6⅛	6⅞ - 6⅞	6¾ - 6⅝	6⅞ - 6¾	7⅛ - 7
Sterling CDs	-	-	6⅞ - 6⅞	6⅝ - 6⅞	6¾ - 6⅞	6⅞ - 6⅞
Treasury Bills	-	-	6⅞ - 6⅛	6⅞ - 6⅞	-	-
Bank Bills	-	-	6⅞ - 6⅛	6⅞ - 6¼	6⅞ - 6⅞	-
Local authority deps.	6⅛ - 6	6⅛ - 6⅛	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	7 - 6⅞
Discount Market deps	6⅞ - 6⅛	6⅞ - 6¼	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on May 30, 6.2108pc. ECGD fixed rate Stlg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 25, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.580pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.27	93.28	-	93.28	93.27	6606	100504
Sep	93.09	93.08	-0.01	93.09	93.06	17789	124375
Dec	92.92	92.91	-0.02	92.92	92.88	23395	102557
Mar	92.81	92.82	-0.01	92.83	92.76	11473	88158
Jun	92.72	92.74	-0.01	92.75	92.71	4427	46921

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.04	0.04	0.05	0.01	0.21	0.39
9350	0	0.01	0.01	0.22	0.43	0.60
9375	0	0	0	0.47	0.67	0.84

Est. vol. total, Calls 711 Puts 3113. Previous day's open int., Calls 181093 Puts 191331

EMS EUROPEAN CURRENCY UNIT RATES

Jun 10	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.755370	-0.000963	-5.43	8.41	37
Portugal	197.398	198.305	-0.199	0.46	2.08	-3
Finland	5.85424	5.89225	-0.0029	0.65	1.86	-4
Spain	163.826	165.844	+0.028	1.23	1.28	-9
Denmark	7.34555	7.45357	-0.00174	1.47	1.04	-10
Netherlands	2.16979	2.20231	-0.00042	1.50	1.01	-11
Germany	1.92573	1.95757	-0.00028	1.65	0.86	-16
Italy	1906.48	1938.15	+3.21	1.66	0.85	-12
Austria	13.5485	13.7771	-0.0028	1.69	0.82	-12
Belgium	39.7191	40.3985	-0.0075	1.71	0.80	-12
France	6.45863	6.62178	+0.00206	2.53	0.00	-21
NON ERM MEMBERS						
Greece	295.269	311.842	+0.015	5.61	-2.92	-
UK	0.793103	0.697499	-0.000502	-12.05	18.58	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.620	1.67	2.36	2.64	0.13	1.03	0.88
1.630	0.90	1.76	2.16	0.35	1.48	1.28
1.640	0.37	1.26	1.72	0.82	2.05	1.79

Previous day's vol., Calls 58 Puts 38,567. Prev. day's open int., Calls 85,587 Puts 38,520

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
0.575	1.11	-	-	0.02	0.22	0.41
0.580	0.67	1.07	1.40	0.08	0.38	0.57
0.585	0.33	0.77	1.10	0.22	0.55	0.78

Previous day's vol., Calls 2,521 Puts 2,164 . Prev. day's open int., Calls 24,040 Puts 31,082

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.19	94.19	-	94.20	94.19	27,108	382,543
Sep	94.03	94.04	-	94.05	94.03	70,147	506,825
Dec	93.82	93.83	+0.01	93.84	93.82	108,715	399,120

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.00	95.05	+0.07	95.05	95.00	1,600	3,468
Sep	94.71	94.70	-	94.71	94.70	899	6,475

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9675	0.11	0.08	0.09	0.10	0	0.01	0.02	0.03
9700	0.01	0	0.01	0.02	0.15	0.18	0.19	0.20
9725	0	0	0	0	0.39	0.43	0.43	0.43

Est. vol. total, Calls 10789 Puts 1173. Previous day's open int., Calls 523794 Puts 391428

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9875	0.01	0.05	0.08	0.23	0.36	0.55
9900	0	0.02	0.04	0.47	0.58	0.76

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 4455 Puts 4040

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.25	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.25
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.25
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.25		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.25		

● Members of London Investment Banking Association
* In administration

GT US SMALL COMPANIES FUND
Société d'Investissement à Capital Variable
69, Route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B-25176

Notice is hereby given to the shareholders, that the

ANNUAL GENERAL MEETING

of shareholders of GT US SMALL COMPANIES FUND will be held at the offices of Banque Internationale à Luxembourg, Société Anonyme, 69, route d'Esch, L-1470 Luxembourg, on Friday, June 20, 1997 at 3.15 p.m. with the following agenda:

1. To hear and accept the Reports of:
   (a) The Directors
   (b) The Auditors.
2. To approve the Report of the Directors for the year ended 31 March 1997, including the Statement of Net Assets as at 31 March 1997 and Statement of Operations for the year ended 31 March 1997.
3. To discharge the Board of Directors and the Auditor in respect of their performance of duties for the year ended 31 March 1997.
4. To approve the Board of Directors and elect the Directors to serve until the next Annual General Meeting of shareholders.
5. To reappoint Coopers & Lybrand S.C. as Auditors of the Fund to serve until the next Annual General Meeting of shareholders and to authorise the Directors to fix their remuneration.
6. To approve the payment of Directors' fees.
7. Any other business.
8. Adjournment.

The shareholders are advised that no quorum is required for the items on the agenda of the Annual General Meeting and that decisions will be taken on a simple majority of the shares present or represented at the meeting.
In order to take part at the Meeting of June 20, 1997, the owners of bearer shares will have to deposit their shares five clear days before the meeting with Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg.

THE BOARD OF DIRECTORS

GT EUROPE FUND
Société d'Investissement à Capital Variable
69, Route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B-21188

Notice is hereby given to the shareholders, that the

ANNUAL GENERAL MEETING

of shareholders of GT EUROPE FUND will be held at the offices of Banque Internationale à Luxembourg, Société Anonyme, 69, route d'Esch, L-1470 Luxembourg, on Friday, June 20, 1997 at 3.00 p.m. with the following agenda:

1. To hear and accept the Reports of:
   a. The Directors
   b. The Auditors.
2. To approve the Report of the Directors for the year ended 31 December 1996, including the Statement of Net Assets as at 31 December 1996 and Statement of Operations for the year ended 31 December 1996.
3. To discharge the Board of Directors and the Auditor with respect of their performance of duties for the year ended 31 December 1996.
4. To approve the Board of Directors and elect the Directors to serve until the next Annual General Meeting of shareholders.
5. To reappoint Coopers & Lybrand S.C. as Auditors of the Fund to serve until the next Annual General Meeting of shareholders and to authorise the Directors to fix their remuneration.
6. To approve the dividend if any, paid in respect of the year ended 31 December 1996.
7. To approve the payment of Directors' fees.
8. Any other business.
9. Adjournment.

The shareholders are advised that no quorum is required for the items on the agenda of the Annual General Meeting and that decisions will be taken on a simple majority of the shares present or represented at the meeting.
In order to take part at the Meeting of June 20, 1997, the owners of bearer shares will have to deposit their shares five clear days before the meeting with the registered office of the company or with Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg.

THE BOARD OF DIRECTORS

COMMODITIES AND AGRICULTURE

Plastic puts pressure on cans

Aluminium producers are struggling to cope with changes in taste

Put 50 cents into any of the vending machines at World of Coca-Cola in Atlanta – housing "the world's largest collection of Coca-Cola memorabilia" – and the drink is delivered in a plastic bottle. Only a year ago it would have been in an aluminium can.

The switch from cans to PET (polyethylene terphthalate) for soft drinks in the US has been so swift and bruising that the aluminium industry is still struggling to come to terms with it.

Cans represent one of aluminium's main markets, accounting for 20 per cent of global demand. Cans in the US alone account for 10 per cent of worldwide sales of the metal. One customer, Coca-Cola, uses more than 600,000 tonnes of aluminium can sheet a year – enough to keep three smelters fully occupied.

Now this market is under threat, not only from PET in the soft drinks business, but also because glass bottles have come back into favour as beer containers.

In the US the development of "micro-breweries" and the belief that "premium" beer should be served in glass bottles is having a noticeable impact. Glass's share of the US beer packaging market moved up from 35.8 per cent in 1994 to 38.6 per cent last year while cans slipped to 61.4 per cent.

"Our market research shows that people think glass is classy and that beer tastes better in glass," said Mr Norman Nieder, group director, packaging technology at Anheuser-Busch, the brewing group. "A can is a can. It is always the same."

He was speaking at Alumitech 97, organised by the US Aluminium Association, where other executives reinforced the message.

Mr Robert Budway, president of the Can Manufacturers' Institute, said the main threat was posed by PET bottles in the "single serve" soft drinks market, primarily in vending. "In the US this is a market of 15bn to 18bn units and 80 per cent of all new vending business is going to PET," he warned.

Mr Jesse Myers, founding editor of Beverage Digest, went even further. "You are in free-fall," he told delegates. "You must do something about it now."

The aluminium industry has also been startled by the way the aluminium can's progress in Europe has suddenly stalled.

Until 1995 demand for aluminium cans in Europe was growing at 9 per cent a year, but since then it has levelled off, not only because of the growth in PET bottles but also because the steel industry, not wanting to see the beverage can market go the same way as in the US – where aluminium had nearly 100 per cent of the market – has fought back spiritedly.

But just how bad might it become for the aluminium industry? Mr Nick Mason, research manager of the aluminium group at the CRU International consultancy, said another aluminium market in the US provided some ominous pointers: aluminium had 56 to 58 per cent of the new and replacement residential window market in the first half of the 1980s but by last year this had fallen to 18-19 per cent as vinyl windows advanced.

Another worrying aspect for the aluminium producers is that drinks companies quickly transferred the PET technology to Europe from the US. Might they do the same in emerging markets such as Latin America, on which the aluminium industry is relying for future growth in the can business?

"One lesson from Europe is that there is a risk of a leap across a whole range of developments in packaging, the risk of a jump to PET," said Mr Mason.

However, he said the can remained an excellent container, offering a 30 per cent cost advantage over glass bottles at the filling stage. At present aluminium was competitive with PET in "single serve" containers filled in high volumes.

He suggested a "two-tier market" might emerge, consisting of a high-throughput segment, in which system economics still dominated and cans retained many advantages, and the premium segment, "in which the package, as much as the contents, may determine the value of the product to the brand manager".

Anheuser-Busch is trying embossed cans, cans with labels using 10 colours, cans with photographs on them, cans that change colour to show whether they are cold or warm, cans with "touch-off" tops instead of ring pulls and shaped cans.

But plastics producers are developing bottles made of polyethylene natphthalate (PEN) – capable of holding beer – so the plastics threat to the aluminium industry could become even more serious.

Ultimately, customers will decide who wins. Drinks producers now subscribe to the philosophy once famously expounded at a sales conference by Alfred Steele, when chairman of PepsiCo.

"If the customers say they want sweat wrapped in goat skins, I will send half of you out to look for goats and get the rest of you running hard on the spot," he said.

Kenneth Gooding

Blow for Cuba as sugar crop falls short

By Pascal Fletcher in Havana

Cuba's sugar harvest, which ended at the weekend, will fall short of last season's crop of 4.4m tonnes and this disappointing result is expected to lead to a shake-up of the state sugar industry, including possible mill closures, according to government officials and foreign analysts.

Although no final production total has yet been announced, one senior Cuban official said last week the crop was expected to reach about 4.2m tonnes, some 6 per cent below the 1995-96 result. Some foreign businessmen working in the Cuban sugar sector said the real output figure might fall below 4m tonnes.

The harvest is a setback for the government, which was hoping to improve on 1995-96, when production, boosted by foreign financing, recovered to 4.4m tonnes after 1994-95's disastrous 3.3m tonnes.

President Fidel Castro, has blamed the problems on damage caused by last October's Hurricane Lili and disruptions resulting from the US Helms-Burton law, which tightens the 35-year-old US economic embargo against Cuba.

But Mr Castro also criticised "subjective factors". This was a reference to problems of organisation and inefficiency which, along with shortages of fertilisers and spare parts, have dogged Cuba's sugar industry since the collapse of the Soviet Union in 1991.

This public criticism is expected to lead to a big shake-up of the sector. Mr Castro and senior officials have said inefficient sugar mills should close.

Cuba currently ranks as the world's fifth biggest sugar exporter, with a total of 4.2m tonnes last season.

COMMODITIES NEWS DIGEST

British Columbia eases logging rules

The Canadian province of British Columbia has bowed to criticism from the forestry industry by easing environmental protection rules in its Forest Practices Code. The code was introduced two years ago in response to environmental groups' protests against logging practices in western Canada. The protests spawned consumer boycotts against several Canadian companies in Europe and the US.

The government also set up a "forest renewal fund" financed by levies on forestry companies, and curbed the transfer of tree-cutting rights. But the industry, increasingly supported by trade unions, warned that regulations would disrupt operations and discourage new investment in the province's biggest business sector.

MacMillan Bloedel, British Columbia's largest forestry group, estimated the cost of compliance at about C$50m a year. A photograph in MB's latest newsletter showed a pile of documents, taller than a man, needed to gain approval to log a single tree-block. The code has been approved in phases over the past two years and is due to take full effect on June 15. It sets requirements for a wide range of forestry practices, including road construction, soil degradation and limiting wood supplies from scenic areas.

The changes are the product of talks over the past six months between government officials, corporate chiefs and union leaders. They are designed to lighten the paperwork required for logging plans, and to speed up the approval process. The government said the changes would simplify operational planning "without compromising environmental standards".

The most far-reaching change is that forestry officials will now be required to consider the economic, as well as the environmental and social, impact of logging plans. The industry welcomed the changes. "They were necessary and they are meaningful, but they're not everything we wanted," one company official said. However, environmental groups expressed disappointment. *Bernard Simon, Toronto*

Jiangxi Copper well met

Jiangxi Copper, the Chinese copper producer, yesterday said its offering of 62.822m H-shares in Hong Kong was 32.9 times subscribed. The Hong Kong initial public offering represents 10 per cent of the global offering. The company said the price of the new issue had been fixed at HK$2.55 per share, with dealing in the H-shares expected to begin on June 12. The shares will have a secondary listing on the London Stock Exchange. Proceeds of the offering are to be used to repay short-term debt and expand production facilities. *Reuters, Hong Kong*

Israel warned on nut imports

Israel's Industry and Trade Ministry yesterday said the US wants the Jewish state to stop the illegal import, via European countries, of Iranian pistachio nuts. Iran is officially classified in Israel as an enemy state and the import of products from the Islamic republic is illegal. Mr Zohar Peri, head of foreign commerce at the Industry and Trade Ministry, said Israeli importers might be falsifying the country of origin on import documents. *Reuters, Jerusalem*

Recent fall in crude oil futures reversed

MARKETS REPORT

By Gary Mead

The recent fall in crude oil prices – by $3 a barrel in the past three weeks – was reversed yesterday, with the July future for Brent picking up 13 cents to $17.69 a barrel in afternoon trading on the International Petroleum Exchange. Brent crude for July delivery hit a one-year low at one point on Monday, at $17.54 a barrel.

The persisting confusion as to when Russian exports of palladium to Japan will resume continued to be reflected in price movements yesterday.

Having bounced at the end of last week to its highest price since early 1980, the precious metal yesterday fell $18 to $208 an ounce as reports from Moscow suggested that shipments might be about to start.

Also tumbling yesterday were arabica coffee prices on the Coffee, Sugar and Cocoa Exchange in New York.

Overnight reports of a cold air mass leaving Brazil, with the crop unscathed, brought the July future down by 26.30 cents in early trading, to 227.00 cents a pound.

A similar picture was seen on the London International Financial Futures Exchange, where the July robusta contract closed $65 down, at $1,825 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1587.5-88.5	1608-09
Previous	1581.5-2.5	1605.6.0
High/low		1617/1604
AM Official	1585-5.5	1607-8
Kerb close		1617-18
Open int.	259,230	
Total daily turnover	71,977	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1450-55	1470-80
Previous	1450-55	1475-7
High/low	1555/1455	1480
AM Official	1455-58	1475-80
Kerb close		1470-80
Open int.	5,542	
Total daily turnover	445	

■ LEAD ($ per tonne)

Close	628.5-29.5	641-42
Previous	626-7	639-40
High/low		643/640
AM Official	628-9	641-1.5
Kerb close		639-40
Open int.	34,873	
Total daily turnover	7,050	

■ NICKEL ($ per tonne)

Close	7180-90	7290-300
Previous	7155-65	7270-75
High/low		7290/7210
AM Official	7120-25	7230-2
Kerb close		7285-95
Open int.	52,617	
Total daily turnover	12,254	

■ TIN ($ per tonne)

Close	5630-40	5670-80
Previous	5585-75	5610-15
High/low		5680/5580
AM Official	5580-85	5620-25
Kerb close		5590-600
Open int.	16,567	
Total daily turnover	7,233	

■ ZINC, special high grade ($ per tonne)

Close	1338-39	1362-63
Previous	1332-3	1356-7
High/low		1363/1359
AM Official	1336.5-7.0	1360-60.5
Kerb close		1362-63
Open int.	94,623	
Total daily turnover	23,195	

■ COPPER, grade A ($ per tonne)

Close	2588.5-89.5	2508.5-9.5
Previous	2554-7	2487-8
High/low	2587/2585	2515/2499
AM Official	2586-7	2507-8
Kerb close		2514-15
Open int.	136,004	
Total daily turnover	58,971	

■ LME AM Official £/$ rate: 1.6368
LME Closing £/$ rate: 1.6405

Spot: 1.6385 3 mths: 1.6350 6 mths: 1.6313 9 mths: 1.6281

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	119.70	+2.45	119.80	108.00	898	2,605
Jul	120.10	+2.55	120.45	117.50	4,496	31,758
Aug	117.70	+2.25	117.50	115.60	119	2,543
Sep	116.30	+1.85	116.30	114.55	657	7,339
Oct	114.10	+1.75	-	111.80	18	1,138
Nov	112.05	+1.10	111.00	111.00	13	1,215
Total					6,392	58,319

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	343.80-344.30		
Opening	344.00-344.30		
Morning fix	344.00	210.038	485.945
Afternoon fix	343.75	209.898	495.619
Day's High	344.20-344.50		
Day's Low	343.40-343.70		
Previous close	343.80-344.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.06	6 months	4.16
2 months	4.08	12 months	4.18
3 months	4.09		

Silver Fix	p/troy oz.	US cts equiv.
Spot	280.55	475.90
3 months	284.25	481.00
6 months	288.40	486.80
1 year	306.75	496.60

Gold Coins	$ price	£ equiv.
Krugerrand	354-357	216-218
Maple Leaf	-	-
New Sovereign	80-83	49-51

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	343.7	-0.2	344.0	343.0	98	466
Aug	346.1	-0.2	346.7	345.4	8,208	72,684
Oct	348.6	-0.2	348.9	348.2	75	7,495
Dec	351.1	-0.2	351.5	350.5	751	26,181
Feb	353.6	-0.2	353.1	353.1	131	9,612
Apr	356.0	-0.2	-	-	2	3,972
Total					9,314	160,319

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	438.9	-12.2	452.1	430.1	1,482	13,108
Oct	413.9	-9.7	424.1	405.0	476	5,237
Jan	406.9	-9.2	416.6	400.0	34	1,319
Apr	404.9	-9.2	-	-	2	22
Total					1,992	19,686

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	208.80	-1.10	210.00	204.00	48	262
Sep	173.80	-1.10	175.50	170.20	877	6,787
Dec	165.80	+0.90	172.00	162.00	42	494
Jun	165.80	+0.90	-	-	-	95
Total					967	7,688

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	473.1	+0.5	-	-	7	2
Jul	474.5	+0.5	478.5	472.5	12,825	51,985
Sep	479.1	+0.5	483.0	477.0	1,288	11,140
Dec	485.9	+0.7	490.0	486.0	506	8,028
Jan	488.0	+0.7	-	-	-	17
Mar	492.8	+0.7	496.0	491.5	216	8,685
Total					15,429	88,941

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	18.90	+0.12	18.98	18.55	46,161	71,156
Aug	19.12	+0.11	19.27	18.89	39,275	62,821
Sep	19.34	+0.13	19.45	19.10	2,242	35,950
Oct	19.49	+0.10	19.59	19.23	5,744	21,565
Nov	19.64	+0.11	19.73	19.62	2,242	17,040
Dec	19.72	+0.11	19.85	19.68	5,207	37,147
Total					117,480	387,733

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	17.71	+0.15	17.85	17.58	14,865	42,271
Aug	17.97	+0.15	18.08	17.83	13,028	58,827
Sep	18.17	+0.13	18.27	18.08	2,697	17,119
Oct	18.35	+0.14	18.43	18.28	894	9,737
Nov	18.50	+0.15	18.54	18.45	270	6,970
Dec	18.58	+0.14	18.63	18.55	645	11,444
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.90	+0.40	52.30	51.40	17,151	39,225
Aug	52.50	+0.29	52.90	51.75	9,215	22,893
Sep	53.45	+0.34	53.65	53.10	3,975	13,158
Oct	54.40	+0.39	54.65	54.05	2,830	11,479
Nov	55.35	+0.44	55.75	55.00	3,987	10,182
Dec	56.20	+0.44	56.50	55.90	3,162	16,088
Total					46,857	139,709

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	161.50	+1.50	162.50	159.75	6,362	10,998
Jul	162.75	+1.00	164.00	161.25	8,125	16,624
Aug	164.75	+1.00	165.75	163.50	1,286	9,710
Sep	167.00	+1.25	167.50	166.50	656	6,284
Oct	169.25	+1.00	169.75	167.75	856	5,660
Nov	171.00	+0.75	171.50	170.00	303	2,720
Total					17,988	68,277

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.140	-	2.150	2.115	15,340	32,997
Aug	2.165	+0.001	2.175	2.145	5,937	24,570
Sep	2.155	+0.001	2.160	2.140	1,949	18,461
Oct	2.170	+0.001	2.175	2.155	1,030	20,095
Nov	2.305	-	2.305	2.290	881	9,316
Dec	2.445	+0.003	2.450	2.430	760	12,395
Total					28,879	186,583

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	56.80	+0.60	57.25	56.00	23,032	39,862
Aug	58.45	+0.36	56.90	56.10	9,661	17,220
Sep	55.95	+0.31	56.30	55.90	1,620	5,458
Oct	55.00	+0.46	55.25	54.60	265	3,584
Nov	54.90	+0.76	54.90	54.80	172	1,966
Dec	54.45	+0.56	54.70	54.29	658	4,408
Total					36,258	77,664

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	84.00	-1.40	84.95	84.00	37	1,050
Sep	88.75	-1.35	-	-	-	188
Nov	90.75	-1.35	92.10	91.00	127	3,626
Jan	92.75	-1.35	94.00	93.50	42	1,693
Mar	94.75	-1.35	96.00	96.00	10	825
May	96.75	-1.35	97.50	97.50	-	467
Total					223	7,848

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	363.00	-4.50	372.00	362.00	15,579	42,500
Sep	374.00	-2.25	379.50	371.50	4,536	20,310
Dec	384.25	-3.75	391.50	384.00	2,117	17,713
Mar	389.00	-3.00	394.50	389.00	183	2,269
May	378.00	+1.50	382.00	378.00	3	83
Jul	370.00	-2.00	374.50	370.00	37	693
Total					22,452	83,677

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	271.75	-2.25	276.25	271.50	35,772	102,572
Sep	259.00	-2.00	263.50	258.00	6,714	38,252
Dec	255.50	-2.50	259.25	254.50	15,806	113,514
Mar	261.75	-2.00	265.25	261.25	363	13,482
May	266.00	-2.00	269.25	265.00	234	1,574
Jul	269.50	-2.00	272.00	268.75	174	3,514
Total					58,282	274,382

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	85.50	-0.75	85.50	85.50	5	35
Nov	88.00	-0.55	88.00	88.00	5	1,130
Jan	90.10	-0.45	90.10	90.10	2	171
Mar	91.85	-0.70	-	-	-	19
May	93.50	-1.05	-	-	-	3
Total					12	1,358

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	813.00	+2.00	819.00	810.00	51,928	66,217
Aug	769.25	-2.25	776.00	766.50	11,595	25,560
Sep	705.50	-4.00	713.50	705.00	1,745	9,891
Nov	667.00	-12.00	681.00	665.50	15,333	51,926
Jan	670.00	-11.25	683.00	668.50	336	7,198
Mar	673.50	-11.50	685.50	673.60	198	1,893
Total					81,321	164,779

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	22.95	-0.28	23.39	22.91	10,914	42,961
Aug	23.18	-0.26	23.58	23.13	4,817	17,254
Sep	23.38	-0.26	23.78	23.30	2,682	9,575
Oct	23.51	-0.24	23.85	23.50	1,958	11,452
Dec	23.73	-0.25	24.10	23.65	3,408	19,744
Jan	23.88	-0.27	24.15	23.85	92	1,496
Total					24,093	103,811

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	268.7	+1.9	267.5	264.2	21,517	36,199
Aug	249.7	+2.1	250.5	247.8	8,250	18,399
Sep	232.5	-2.0	236.0	232.0	2,030	12,060
Oct	222.2	-2.7	225.2	221.0	2,546	11,848
Dec	214.5	-4.0	219.6	213.2	3,887	22,663
Jan	211.8	-3.7	215.5	210.5	38	2,585
Total					38,997	107,818

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	45.0	-11.0	45.0	45.0	-	11
Mar	90.0	-10.0	-	-	-	-
Apr	93.0	-10.0	97.9	92.0	211	844
May	110.0	-10.0	-	-	-	-
Jun	116.0	-10.0	-	-	-	-
Total					213	855

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1255	+30	1255	1240	50	392
Jul	1185	+40	1185	1150	95	1,219
Aug	1180	+25	1185	1165	47	387
Oct	1350	+30	1350	1332	83	585
Jan	1355	+15	-	-	-	57
Total					285	2,649

	Close	Prev
BFI	1250	1245

FUTURES DATA
All futures data supplied by CMS.

Minor metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.65%, $ per tonne, 2,100-2,200 (2,125-2,200). **Bismuth:** min. 99.99%, tonne lots 3.75-3.85 (3.65-3.80). **Cadmium:** min. 99.95%, cents a pound, 50.00-60.00 (55.00-60.00). **Cobalt:** MB free market, min. 99.8%, 23.40-24.25 (24.00-24.80); min. 99.3%, 20.00-20.75 (20.60-21.50). **Mercury:** min, 99.99%, $ per 76 lb flask, 155-165 (158-168). **Molybdenum:** drummed molybdic oxide, 4.60-4.65 (4.60-4.70). **Selenium:** min 99.5%, 2.00-2.50 (2.20-2.70). **Tungsten ore:** standard min, 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. **Vanadium:** min. 98%, CIF, 3.75-3.83. **Uranium:** Nuexco unrestricted exchange value, 10.50 (10.65).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1013	+11	1013	1002	1,467	20,383
Sep	1031	+8	1031	1023	970	25,253
Dec	1030	+8	1030	1023	768	30,072
Mar	1040	+7	1040	1033	816	31,673
May	1050	+5	1048	1044	357	16,615
Jul	1061	+4	1053	1052	13	5,295
Total					8,148	147,648

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1435	+5	1442	1425	3,171	16,577
Sep	1477	+6	1482	1467	1,536	20,575
Dec	1515	+5	1521	1507	545	19,981
Mar	1545	+4	1548	1537	684	22,155
May	1565	+4	1580	1558	16	8,585
Jul	1585	+4	-	-	12	575
Total					5,962	90,821

■ COCOA (ICCO) (SDR's/tonne)

Jun 9	Price	Prev. day
Daily	1118.30	1118.90

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1820	-70	1970	1825	2,069	15,694
Sep	1850	-75	2005	1850	4,321	22,436
Nov	1863	-77	2015	1865	1,136	8,837
Jan	1850	-80	2000	1877	220	2,862
Mar	1840	-80	1940	1940	20	543
May	1840	-80	-	-	3	30
Total					7,788	50,402

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	217.95	-35.35	259.70	217.00	4,357	7,945
Sep	196.75	-26.85	229.00	196.00	3,736	8,085
Dec	175.25	-18.05	198.50	184.30	560	4,654
Mar	161.75	-17.15	180.00	169.90	366	2,210
May	157.75	-16.75	174.00	165.50	10	521
Jul	150.75	-19.30	170.00	161.05	4	136
Total					9,029	23,691

■ COFFEE (ICO) (US cents/pound)

Jun 9		Prev. day
Comp. daily	172.68	165.93
15 day average	187.81	188.74

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	325.0	-1.1	326.7	324.5	1,409	15,082
Oct	316.7	+0.1	316.9	316.0	565	7,684
Dec	314.1	+0.2	314.2	313.6	284	2,889
Mar	314.0	-0.1	314.2	313.7	192	2,475
May	313.0	-0.1	313.7	313.0	66	781
Aug	312.2	-0.1	313.0	313.0	50	598
Total					2,666	30,031

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.37	-0.08	11.41	11.32	9,132	75,732
Oct	11.25	-0.06	11.27	11.19	6,538	66,512
Mar	11.12	-0.07	11.15	11.09	1,301	30,236
May	11.03	-0.04	11.06	11.01	179	6,758
Jul	10.95	-0.05	10.98	10.96	105	3,212
Oct	10.85	-0.05	10.86	10.81	54	833
Total					17,318	182,976

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.52	+0.40	72.70	72.25	5,333	29,871
Oct	74.45	+0.36	74.60	74.30	781	6,842
Dec	74.96	+0.22	75.10	74.85	4,019	29,529
Mar	76.10	+0.12	76.15	76.05	909	5,060
May	76.73	+0.13	76.65	76.63	73	1,154
Jul	76.95	+0.15	76.95	76.90	37	533
Total					11,228	75,357

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	76.80	-0.10	77.20	76.00	1,698	15,906
Sep	79.45	+0.15	80.00	78.60	436	9,133
Nov	81.85	+0.05	82.50	81.50	186	3,931
Jan	84.55	+0.05	85.00	84.30	34	1,703
Mar	87.05	-0.15	87.50	87.30	20	1,259
May	90.00	-0.05	90.35	90.00	-	288
Total					2,314	32,347

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 10	Jun 9	month ago	year ago
2015.8	2008.4	1984.0	2091.5

■ CRB Futures (Base: 1967 = 100)

Jun 9	Jun 8	month ago	year ago
246.81	246.80		

■ GSCI Spot (Base: 1970 = 100)

Jun 9	Jun 8	month ago	year ago
186.60	187.77	197.81	203.45

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,875	to	718,075
Aluminium alloy	-180	to	61,800
Copper	-2,750	to	128,125
Lead	-75	to	117,550
Nickel	-228	to	51,864
Zinc	-750	to	420,650
Tin	-115	to	12,165

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	64.025	+0.575	64.100	63.325	6,811	10,721
Aug	63.525	+0.35	63.625	63.000	7,556	45,249
Oct	67.425	+0.575	67.475	66.775	2,341	22,554
Dec	69.725	+0.225	69.825	69.475	727	11,000
Feb	70.725	+0.275	70.850	70.475	400	6,031
Apr	72.325	+0.025	72.500	72.150	83	2,285
Total					17,955	98,888

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	80.475	+0.05	80.700	80.375	3,342	5,421
Jul	80.450	+0.3	80.600	79.975	5,629	10,742
Aug	78.550	+0.15	78.700	78.200	2,902	9,438
Oct	70.925	+0.375	71.050	70.400	1,255	6,277
Dec	67.025	+0.35	67.050	66.675	781	3,638
Feb	65.375	+0.575	65.400	64.800	123	1,504
Total					14,165	38,418

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	82.800	-0.875	83.850	81.700	2,444	4,813
Aug	82.900	-0.45	83.800	81.850	893	2,401
Feb	75.275	+1.15	75.100	74.250	70	438
Mar	74.000	+1	74.200	74.200	1	14
Total					3,407	7,673

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1500	108	135	1	14
1600	29	68	23	45
1700	3	28	97	103

■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
2400	195	126	3	65
2500	108	77	16	114
2600	46	43	54	179

■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1800	91	237	71	187
1850	81	217	111	217
1900	65	199	145	249

■ COCOA LIFFE	Jul	Sep	Jul	Sep
975	40	79	2	23
1000	21	64	8	33
1025	8	50	10	44

■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1800	-	66	-	66
1850	-	-	-	-
1900	-	-	-	134

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.27-7.32	+0.070
Brent Blend (dated)	$16.94-6.96	-0.090
Brent Blend (Jul)	$17.64-7.66	+0.010
W.T.I.	$18.78-8.80z	+0.100

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$200-202	
Gas Oil	$163-165	+1.5
Heavy Fuel Oil	$83-85	
Naphtha	$180-182	+1
Jet fuel	$180-181	+0.5
Diesel	$167-169	+0.5

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	10.00-10.10	-0.075

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jul)	10.075	-0.090

■ OTHER

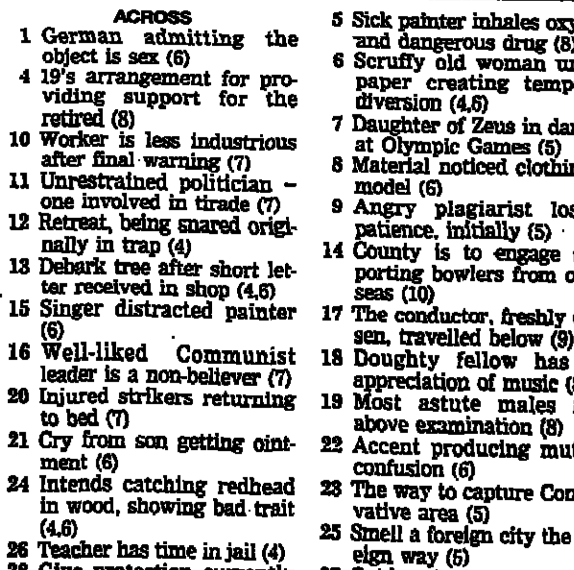
Gold (per troy oz)‡	$344.05	
Silver (per troy oz)‡	479.00c	-2.00
Platinum (per troy oz.)	$452.00	-23.0
Palladium (per troy oz.)	$212.00	-16.0
Copper	122.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.08r	
Tin (New York)	262.5	-2.0
Cattle (live weight)	91.12p	-0.08*
Sheep (live weight)	111.04p	-15.41*
Pigs (live weight)†	100.51p	-1.42*
Lon. day sugar (raw)	$281.60	
Lon. day sugar (wte)	$332.00	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	72.50p	
Rubber (Aug)♥	72.50p	
Rubber (KL RSS No1)	283.0x	-1.0
Coconut Oil (Phil)§	645.0y	+5.0
Palm Oil (Malay.)§	535.0w	
Copra (Phil)§	$410.0y	
Soyabeans (US)	221.0	
Cotton Outlook'A' index	79.85c	-0.10
Wooltops (64s Super)	435p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w Jun y May/Jun♥ z Jul London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 2,879 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,398 Set by ARMONIE



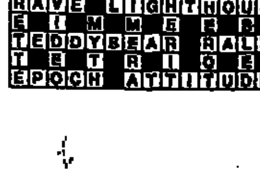
ACROSS

1 German admitting the object is sex (6)
4 19's arrangement for providing support for the retired (8)
10 Worker is less industrious after final warning (7)
11 Unrestrained politician – one involved in tirade (7)
12 Retreat, being snared originally in trap (4)
13 Debark tree after short letter received in shop (4,6)
15 Singer distracted painter (6)
16 Well-liked Communist leader is a non-believer (7)
20 Injured strikers returning to bed (7)
21 Cry from son getting ointment (6)
24 Intends catching redhead in wood, showing bad trait (4,6)
26 Teacher has time in jail (4)
28 Give protection currently to a feature about princess (7)
29 Forgive prisoner? That's acceptable! (7)
30 Reject paintings and poetry being cross (8)
31 Bishop despatched after a truant (6)

DOWN

1 Tremendous one-night show caps singular buffoonery (8)
2 Eye problem leaves listeners in the dark (4,5)
3 Its bad to be climbing (4)
5 Sick painter inhales oxygen and dangerous drug (8)
6 Scruffy old woman under paper creating temporal diversion (4,6)
7 Daughter of Zeus in danger at Olympic Games (5)
8 Material noticed clothing a model (6)
9 Angry plagiarist losing patience, initially (5)
14 County is to engage supporting bowlers from overseas (10)
17 The conductor, freshly chosen, travelled below (9)
18 Doughty fellow has no appreciation of music (8)
19 Most astute males rise above examination (8)
22 Accent producing mutual confusion (6)
23 The way to capture Conservative area (5)
25 Smell a foreign city the foreign way (5)
27 Cut bread when rising (4)

Solution 9,397



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Abtrust Fund Mngrs Luxembourg SA (u)					
4 Boulevard Royal L 2449 Luxembourg 00 352 227001					
Abtrust Atlas Fund					
Global Cap Portfolio		$4.216		+0.037	-
United States Portfolio		$9.495		+0.024	-
Contl Europe Portfolio	0	DM5.055		-0.012	-
Japan Portfolio		$2.664		+0.012	-
Pacific Portfolio		$3.811		-0.010	-
Gold Portfolio		$5.553		+0.016	-
UK Growth of Income		£2.392		+0.016	3.61
Dollar Portfolio		$1.965		—	7.03
Sterling Portfolio		£1.044		-0.001	6.36
Activa Master Fund (u) (x)					
21 avenue de la Liberte, L-1931, Lux 00 352 2954 941					
Australasian NAV		A$18.98		+0.17	-
Austrian Nat NAV		Sch[illegible]		-0.05	-
Belg/Lux NAV		BFr[illegible]		+[illegible]	-
Dutch Nat NAV		[illegible]		+0.25	-
French Nat NAV		FFr153.85		-1.[illegible]	-
German Nat NAV		DM27.95		-0.06	-
Hongkong Nat NAV		HK$143.63		-1.38	-
Italian Nat NAV		L13622		-[illegible]	-
Japanese Nat NAV		Y1268		+3	-
Spanish Nat NAV		Pta1703		-28	-
UK Nat NAV		£11.69		+0.01	-
United States Dlr Res		$11.18		—	-
Prices quoted are "A" shares					
American Phoenix Investment Portfolios (u)					
13 rue Goethe, L-1637 Luxembourg 00 352 464646211					
European Multinational Ptflo		Ecu28.12		+0.02	-
European Multinational Ptflo		$28.27		+0.11	-
European Multinational Ptflo		£18.05		+0.03	-
European Multinational Ptflo		L46514		+138	-
European Multinational Ptflo		DM44.08		-0.01	-
Global Multinational Ptflo		Ecu21.23		-0.02	-
Global Multinational Ptflo		$24.13		+0.08	-
Global Multinational Ptflo		£14.76		+0.01	-
Global Multinational Ptflo		L40887		+77	-
Global Multinational Ptflo		DM41.32		-0.05	-
US Growth Companies		$15.94		+0.06	-
US Growth Companies		£09.74		+0.03	-
US Growth Companies		L27016		+105	-
US Growth Companies		DM27.30		+0.02	-
US Real Estate Securities		$14.91		+0.01	-
US Real Estate Securities		£09.11		-0.01	-
US Real Estate Securities		L25286		-4	-
US Real Estate Securities		DM25.54		-0.06	-

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Fleming Group - Contd.					
FFF Global Conv F		$18.67	19.96	+0.05	-
FFF India II		$10.82	11.13	+0.04	-
FFF Intl Bond F		$13.85	14.76	+0.03	-
FFF Intl Equity F		[illegible]	93.59	-0.16	-
FFF Japanese		$17.28	18.25	-0.01	-
FFF Japanese Smaller Cos F		$6.82	7.22	+0.13	-
FFF Latin American		$14.73	15.58	+0.03	-
FFF Pacific		$24.87	20.31	-0.16	-
FFF Sterling Bond		£1.107	1.177	—	7.80
FFF UK Enterprise		£5.91	6.25	+0.01	-
FFF US Discovery		$45.01	47.38	+0.32	-
Fleming Flagship Series X (daily dealing)					
DM Class F		DM12.50		—	0.0
FFr Class F		FFr64.8		+0.63	0.0
ITL Class F		L23424		+10.00	0.1
£ Class F		£5.29		—	0.1
US$ Class F		$12.18		+0.07	0.1
Oasis Fund Sicav					
International Equity F	5 CE	$1 L12	11.7082	—	-
Foreign & Colonial Emerging Markets Ltd (u)					
Exchange Ho, Primrose St, Ldn, EC2A 2NY 0171-628 1234					
F&C Emerging Markets					
Argentinian Inv Co F		$25.64		-0.03	-
Brazilian Inv Co SICAV F		$55.12		+0.14	-
Cntrl Emerging Mkts Co SICAV F		$11.75		+0.05	-
Latin Amer Inv Co SICAV F		$13.03		+0.03	-
Mexican Inv Co SICAV F		$23.98		-0.07	-
Foreign & Colonial Portfolios Fd Sicav(u)					
33 Boulevard Prince Henri, L-1724 Lux 00 352 2200 211					
Am Smlr Cos Eq F		$41.39		+0.29	-
Japanese Smlr Cos Eq F		Y914.00		-1.00	-
European Smlr Cos Eq F		Ecu17.64		-0.04	-
Emerging Asian Eq F		$22.08		-0.02	-
Sterling Bond F		£16.14		-0.01	-
Sterling Distribution F		$9.70		+0.04	-
Frontrunner I (u)					
672 rue de Neudorf, Luxembourg 00 352 436887359					
European Equities		Ecu182.95		—	-
Global Bonds		DM172.12		—	-
Global Bonds		DM160.93		—	-
Sterling Fund		£197.35		—	-
Danish Bonds		DKr770.59		—	-
Swedish Bonds	3	SKr125.03		—	-
German Bonds		DM103.88		—	-
Dollar Bonds	3	$100.33		—	-

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Isle of Man) Ltd				
Victory Hse, Prospect Hill, Douglas, IoM 01624 [illegible]				
Distribution Fund-Deferred	[illegible]		+0.24	-
Distribution Fund-Quarterly	53.06		+0.10	5.44
Distribution Fund-Half Yearly	53.17		+0.10	5.54
European Equity	178.65	188.30	+1.24	-
Far Eastern Equity	$2.0118	2.1832	+0.0011	-
North American Equity	$1.8770	1.8032	+0.0030	-
UK Equity	193.94	208.21	+2.19	-
UK Gilt & Fixed Int	124.57	134.37	-0.41	-
Dollar Deposit	$0.7825	0.8413	+0.0004	-
Sterling Deposit	111.30	118.07	+0.06	-
International Managed	153.23	164.76	-0.12	-
PanEuroLife societe anonyme				
35 Av Marie-Therese, Luxembourg 00 352 458730				
French Balanced Jun 4	FFr7686.53		-70.24	-
German/Sweden Jun 4	DM3684.65		-8.28	-
Global Equities Jun 4	$1543.48		+8.22	-
UK Secure Gth Jun 4	£769.55		-4.30	-
US Secure Growth Jun 4	$1342.18		-2.13	-
Intl Real Estate Jun 4	Ecu1814.24		+38.02	-
Fund of Funds Jun 4	Ecu1488.65		+17.23	-
[illegible]	DM1047.87		+0.62	-
[illegible]	LFr1058.34		+0.80	-
[illegible]	$1040.26		+0.70	-
[illegible]	FFr1049.25		+0.70	-
USD 2004	$533.86		+5.92	-
Premier Life				
1 Rue Emile Bian, Luxembourg Tx 2600 Tel 4050751				
Davenport Cadwick £ Fd	£1.310	1.410	-	-
Matheson £ Pens	£1.000	1.100	-	-
Matheson $ Pens	$1.040	1.100	-	-
Argent Stnd	£16.280	17.380	-	-
Argent Equity Gth	£20.580	22.030	-	-
OFS [illegible]	£2.85	2.86	+0.02	-
OFS [illegible]	$2.32	2.33	+0.05	-
OFS Aggressive $	$1.51	1.52	+0.01	-
OFS Mixed Growth $	$2.98	1.99	+0.02	-
OFS Dlr Balanced Port	$1.80	1.81	-	-

	Selling Price	Buying Price	+ or -	Yield Gross
Aravis Capital Advisers LLC				
Aravis Clipper Ltd	$128.95		-	-
Arc Investment Company Ltd				
Rainbow	$583.29		-	-
Rainbow	$[illegible]		-	-
Arisaig Partners (BVI) Ltd				
Arisaig Asian Small Companies Fund				
NAV	$10.75		-	-
Arnhold and S. Bleichroeder, Inc				
Aeltus Corporation-Class A	$11285.03		-	-
[illegible]	$743.98		-	-
[illegible]	$[illegible]		-	-
Eagle Select Fund Ltd	$1118.26		-	-
First Eagle Fund N.V. -Class A	$102019.80		-	-
Global Sovereign-Class A	$139.23		-	-
Asia Pacific Capital Strategies Fund				
NAV Jun 2	$7.8948		-	-
Asia Pacific Securities Corp Ltd				
[illegible]	$7.84		-	-
Asian Convertibles & Income Fd (Cayman)				
NAV Jun 6	$13.57		-	-
Atlantica Investment Ltd				
Atlantica Liber Plus Jun 9	$106.03		-	-
Atlantic Fund Management (Guernsey) Ltd				
Atlantic Jap Gwth Unit Jun 9	$7.88		+0.36	-
Atlantic Jap Gwth Oil Jun 9	$8.39		+0.32	-
Atlantic Korea Fd Inc Jun 4	$82.40	87.40	-	-
Atlas Management Limited				
Managed	$11.20	11.70	-	-
Aurora Funds				
c/o [illegible] Fund Administration				
[illegible]	$174.82			

OTHER OFFSHORE FUNDS

The new Ultra Transporter case. The convenient horizontal shelving. The incredible stability and fantastic manoeuvrability. For the traveller without a worry in the world.

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. [illegible] Dividend is paid in whole or part as a

FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
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Feelgood factor lifts Footsie to new records

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The FTSE 100 index burst into new high ground in response to Wall Street's strength, illustrated yesterday by a near 100-point gain on the Dow Jones Industrial Average in early trading.

News of the bid approach to Energy Group, announced after hours, looks certain to impart further strength to a London market eager for takeover news. The bid should inject £3.6bn into the market.

Apart from the all-pervasive influence of Wall Street, London dealers said the domestic market had been caught "horribly short" of stock, after a mid-morning attempt by marketmakers to drive share prices lower was met by a legion of buyers.

Footsie passed both its previous closing high of 4,693.9 and the intra-day peak of 4,723.7, reached on May 16, as the index ended an ebullient session 52.9 or 1.1 per cent ahead at 4,739.6. Over the past four trading sessions, Footsie has risen 182.5 or 4 per cent.

A senior marketmaker at one big European securities house said the afternoon brought an element of panic buying from some of the big funds known to be underweight in the market. "There is some powerful buying behind the market at present and no signs of it stopping at the moment," he said.

Those sentiments were echoed by the head of marketmaking at another top London firm. "The market feels unstoppable; it is the weight of money argument again. The big sectors with heavy weightings, such as the banks and pharmaceuticals, are running strongly. The Norwich Union and Woolwich flotations will go well and the feelgood factor has arrived in the stock market."

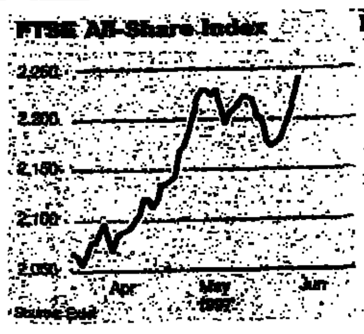
Norwich Union shares were quoted at 337p-347p yesterday by City Index, the financial spread betting company. The marketmaker added there was evidence that some of the money leaving European markets, which have been affected by the problems over European monetary union, has found a home in the UK and US, seen as safe havens.

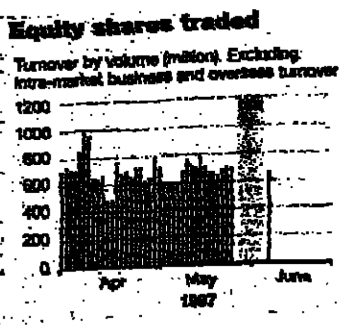
Prior to its four-day run, the Footsie had fallen for six straight sessions as investors fretted about the potential for rate rises in the UK and US as well as the Labour party's first Budget on July 2. Some of the market's sceptics, who persist with the view that London has been overbought, are still predicting a rise in US interest rates on July 2 when the Federal Open Market Committee next meets.

While the leaders were setting a searing pace, the second liners and smaller capitalised stocks failed to keep up. The FTSE 250 rose a pedestrian 13.2 to 4,497.3, while the FTSE SmallCap actually lost ground on the day, falling 0.1 to 2,279.4.

Alliance & Leicester and Halifax were aggressively bought ahead of today's meeting of the FTSE steering committee, which should see both stocks included in the Footsie. Smith & Nephew and Burton are the most likely relegation candidates.

Turnover at the 6pm count was 872m shares.





Indices and ratios

FTSE 100	4739.6	+52.9
FTSE 250	4497.3	+13.2
FTSE 350	2287.2	+22.0
FTSE All-Share	2242.16	+19.99
FTSE All-Share yield	3.47	3.50
FT 30	3039.4	+36.6
FTSE Non-Fins p/e	18.92	18.77
FTSE 100 Fut Jun	4746.0	37.0
10 yr Gilt yield	7.17	7.16
Long gilt/equity yld ratio	2.07	2.05

Best performing sectors

1	Gas Distribution	+3.3
2	Tobacco	+3.1
3	Engineering: Vehicles	+3.1
4	Electronic & Elect Equip	+2.5
5	Life Assurance	+2.2

Worst performing sectors

1	Water	-0.7
2	Oil Exploration	-0.6
3	Property	-0.4
4	Diversified Inds	-0.3
5	Breweries: Pubs	-0.1

Energy set to surge

By Joel Kibazo and Martin Brice

Attention is expected to focus on Energy Group following yesterday's announcement after the market close that it is in discussions with US group PacifiCorp, which may lead to a takeover of the UK group.

Shares in Energy had risen 18½ to 580p during the course of the session and the announcement said an offer would be at a 20 per cent premium to yesterday's closing price, leading to expectations the shares will trade around the 700p mark.

UK health sciences group Amersham International was the toast of the market following confirmation it is to merge its life sciences businesses with US-Swedish group Pharmacia & Upjohn's Pharmacia Biotech.

The deal first signalled at the end of last month will create the world's largest biotechnology supply company. The new organisation will be 55 per cent owned by Amersham.

The companies said they are to fold their life sciences units into a new company, Amersham Pharmacia Biotech, which will have annual sales of around £430m.

The group also improved full year profits, just ahead of market expectations.

The market welcomed the deal and the figures and sent shares in the UK group sharply ahead. By the end of the session, they had gained 131½ or nearly 10 per cent to £14.82½.

One analyst said: "This is a deal that makes a lot of sense. It has added a lot of critical mass particularly to Amersham's business in Japan. There will be significant cost savings and the deal should be earnings-enhancing in the year to March 1999."

The engineering sector saw some interest from investors, and produced the biggest Footsie riser and the biggest Footsie volume.

LucasVarity showed the biggest rise in the FTSE 100 as it lifted 14½ to 209p in chunky volume of 8.8m ahead of a visit by analysts to the company and first-quarter figures tomorrow.

This will be the first time that quarterly figures have been issued by the company so comparisons will be difficult but Lehman's team expects to see £10m improvements in each quarter looking forward. The visit is to the company's Perkins division.

Sentiment in the stock was helped by a positive note from Lehman Brothers, which takes an "outperform" stance on the shares.

Its analysts calculate the shares could reach 310p next year.

Lehmans has also this week told investors it believes GEC shares are "very undervalued" and the company has "the cash, the technology and the links to lead in global defence".

GEC shares were the most heavily-traded in the FTSE 100 yesterday, rising 17 to 353½p in volume of 18m, partly helped by a return of talk of a merger with BAe, which eased 8 to £13.50p.

Lehman's team believes GEC shares, one of the lowest-valued stocks in the sector, could reach 430p next year.

Mr Chris Heminway at the broker said the sector was at a 20 per cent discount to continental Europe, the biggest for 10 years, and recommends that investors overweight UK engineering stocks.

It is also positive on Siebe, up 3½ to 963½p.

Elsewhere, BAA shares lifted 15 to 555p, helped by UBS increasing its forecast for pre-tax profits for the year to next March. The broker increased its estimate from £480m to £495m, giving earnings per share of 35.5p and putting the shares on a prospective p/e of almost 16 times.

Shares in BTP were up 20 to 290p on the back of strong results and a positive meeting with analysts that prompted talk of broker upgrades for the speciality chemicals company.

The shares are seen as a "strong buy" by Ms Robyn Coombs of Merrill Lynch, who believes they are due a re-rating, possibly to a level closer to 350p.

Her forecast of £54m pre-tax for next year puts the shares on a price-earnings ratio (relative to the market) of 89.

Shares in Eurotunnel rose 5½ to 71p and saw unusually heavy trade of 1m shares in London on hopes that the Channel tunnel operator could win an extension of its concession to run the tunnel. There is talk that the subject will be on the agenda when Tony Blair, the prime minister, meets Jacques Chirac, the French president, today. Analysts dismissed as unlikely the suggestion of an extension to the concession. The share price rise came despite news that Eurotunnel was cutting its prices for the summer season.

It was a mixed day in the retail banking sector. National Westminster, which rose sharply in the previous two sessions, ran into heavy profit-taking as recent talk about a merger with Abbey National faded into the background. The shares gave up 12 to 804p, after trade of 9m.

Abbey, still considered a suitable merger candidate for Prudential Corporation, continued to move strongly ahead. The shares put on 12 to 895½p. Alliance & Leicester and Halifax, both of which recently converted from building societies to banks, were also in demand. Dealers pointed to institutional buying in both stocks, which are soon expected to join the premier list of the FTSE 100. Shares in the former rose 16½ to 623½p while the latter gained 13 to 762p. Prudential ended the day 13½ higher at 664½p.

Legal & General was also in favour and it hardened 20½ to 472p.

Bank of Scotland was one of the best performing stocks in the FTSE 100 after a positive statement at the company's annual meeting. The shares rose 20½ to 404½p.

Sir Bruce Pattullo, Bank of Scotland governor, said trading in the three months to May is ahead year on year with business volumes continuing to show growth.

Strong US buying in BT brought turnover of 15m by the close. The shares gained 12 to 482½p. BT recently won approval from the European Commission for a $20bn merger with U.S. telecoms group MCI Communications. It expects to receive clearance from US authorities before the end of this year.

Profit-taking after the recent run left Cable & Wireless trailing 12½ to 549p.

Granada Group, which is in talks about a takeover of Yorkshire Tyne-Tees at £11.75 a share, saw its shares rise 8½ to 898½p ahead of its results today. Traders are waiting to hear how Granada plans to pay for the deal, and if it is to issue any shares or use cash. Yorkshire shares eased 5 to £11.55.

Elsewhere, Grampian rose 7 to 317½p while Scottish Media firmed 7½ to 706p.

FT 30 INDEX

	Jun 10	Jun 9	Jun 6	Jun 5	Jun 4	Yr ago	*High	*Low
FT 30	3039.4	3002.8	2983.5	2952.3	2946.3	2779.4	3039.4	2668.8
Ord. div. yield	3.61	3.64	3.68	3.72	3.73	4.00	4.22	3.61
P/E ratio net	18.38	18.22	18.05	17.85	17.80	16.15	18.38	15.80
P/E ratio nil	18.20	18.04	17.87	17.67	17.62	15.94	18.20	15.71

FT 30 since compilation: high 3039.4 10/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3007.2	3008.5	3009.2	3013.2	3011.9	3010.2	3011.9	3020.1	3030.9	3039.4	3005.6

	Jun 10	Jun 9	Jun 6	Jun 5	Jun 4	Yr ago
SEAQ bargains	52,066	51,410	45,188	41,277	45,738	29,575
Equity turnover (£m)†	-	NA	NA	NA	*NA	1361.8
Equity bargains†	-	NA	NA	NA	NA	35,969
Shares traded (ml)†	-	NA	NA	NA	NA	481.1

†Excluding intra-market and overseas turnover but including Crest turnover.
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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	654	Total Highs	110	Total contracts	50,317
Total Falls	771	Total Lows	77	Calls	27,930
Same	1,651			Puts	22,387

Jun 10 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4698.0	4746.0	+37.0	4760.0	4686.0	17627	63292
Sep	4732.0	4778.0	+37.0	4788.0	4719.5	4983	18210
Dec	4788.0	4830.0	+38.0	4804.0	4788.0	250	928

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4488.0	+5.0			0	4370
Sep	4520.0	4540.0	+5.0	4520.0	4520.0	24	2881

FTSE 100 INDEX OPTION (LIFFE) (*4732) £10 per full index point

	4550		4600		4650		4700		4750		4800		4850		4900	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Jun	204½	4	158½	7	112½	14½	73½	27½	42½	48½	21½	78½	18	119½	4	158
Jul	248	29½	208	39½	167½	52	131	67½	100	88½	75	115½	53½	146½	37	182
Aug	282½	51	223½	63½	188½	77½	157½	98	127½	119	103½	145½	82	175	62½	206
Sep	293	65	254½	77½	228½	95	188½	114½	157	134½	132	160½	108½	188½	85½	217½
Dec†			337½	112½			270	147½			219½	192			163	247

Calls 15,023 Puts 5,381

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4575		4625		4675		4725		4775		4825		4875		4925	
Jun	175½	5½	130½	10½	90½	19½	58	37	34	63	17	96	7	135½	2	180½
Jul	228½	33½	181½	44	146	58	113½	75	86	97½	62	123	42½	153	27½	188
Aug	248	56½	203	68½	168½	83½	138½	101	109	123	85½	148½	66	179	48½	211½
Sep			235	84½			172	120			118½	164½			78	220
Dec†			318½	120½			256	154½			200	195			151	243

Calls 3,893 Puts 6,588 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	3,629	655	532½	Alliance & Leic	623½	+18½	L16.3	2.5	3.3	15.3
§	F.P.	91.6	1200	795	Aston Villa	800		R8.8	1.8	1.4	44.0
	F.P.	4,341	306½	258½	Cable & Wireless	291½	+15½	-	-	-	-
	F.P.	-	102	97½	Caradon B	99½		-	-	-	-
100	F.P.	25.0	100	100	Downing HI VCT	100		-	-	-	-
§40	F.P.	3.41	42½	30	†Eagles	35		-	-	-	-
*	F.P.	1,908	312½	270½	Gallaher	276½	-1	19.25	1.4	8.7	10.5
*	F.P.	19,126	776	714	Halifax	762	+13	a14.84	2.1	2.4	22.8
§140	F.P.	11.4	147½	98½	Heart of Midlthn	112½		-	-	-	-
§	F.P.	7.02	164½	155½	†ITG	156½		-	-	-	-
100	F.P.	3.75	125	102½	†Integrated As Mg	125		-	-	-	-
§-	F.P.	-	99	99	Intl Biotech C	99		-	-	-	-
§110	F.P.	5.17	130½	122½	†Lady in Leisure	124½		b-	-	-	-
§	F.P.	3.69	119½	112½	Longbridge Intl	117½		-	-	-	16.4
50	F.P.	18.7	54½	47½	†NBT	47½	-1	-	-	-	-
§10	F.P.	5.14	14¾	11½	†Newmark Tech	12¼		-	-	-	-
100	F.P.	8.00	100	100	Penine AIM VCT	100		-	-	-	-
	F.P.	26.7	92½	39½	†Petra Diamonds	91½	+13	-	-	-	-
	F.P.	1.21	72½	13½	†Do Warrants	72½	+11½	-	-	-	-
143	F.P.	21.8	156½	150	Quiceram	155½		22.6%	-	1.5	-
§-	F.P.	70.2	227	212½	Royalblue Grp	212½	-4	1.5	2.6	0.9	54.0
§100	F.P.	8.29	120½	112½	†SBS Group	117½	-3	L2.4	2.0	2.5	20.7
§100	F.P.	10.2	108½	102½	†Soccer Investmnt	102½		-	-	-	-
§100	F.P.	22.3	111½	107	Topps Tiles	111½		-	-	-	11.7
§3	F.P.	5.04	4	3½	Versatile Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jun 9	% chg on day	Jun 6	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index†(31)	1555.76	+0.8	1542.97	2178.00	2.17	-	2178.00	1468.60
Regional Indices								
Africa (14)	1744.62	+0.7	1733.10	2947.97	5.07	27.88	2947.97	1687.50
Australasia (6)	1744.03	+0.2	1740.05	2577.83	3.00	19.47	2583.35	1729.01
North America (11)	1486.23	+1.0	1471.70	1903.22	0.97	61.22	1903.22	1335.84

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 10	Day's chge%	Jun 9	Jun 6	Jun 5	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4739.6	+1.1	4686.7	4645.0	4578.2	3755.7	3.47	2.04	17.69	87.55	2022.63
FTSE 250	4497.3	+0.3	4484.1	4473.2	4465.9	4462.3	3.63	1.59	21.69	78.79	1875.61
FTSE 250 ex IT	4502.0	+0.3	4488.1	4478.6	4473.0	4507.0	3.78	1.62	20.46	80.76	1882.65
FTSE 350	2287.2	+1.0	2265.2	2247.9	2220.3	1898.8	3.50	1.95	18.33	41.82	1993.08
FTSE 350 ex IT	2287.0	+1.0	2264.6	2247.3	2219.3	-	3.52	1.98	18.09	9.49	1021.86
FTSE 350 Higher Yield	2220.5	+1.0	2198.3	2183.2	2159.3	1826.6	4.50	1.83	15.20	49.64	1639.63
FTSE 350 Lower Yield	2359.9	+0.9	2338.2	2318.4	2286.7	1978.3	2.47	2.17	23.26	33.34	1682.64
FTSE SmallCap	2279.37	—	2279.49	2280.38	2277.24	2239.41	3.09	1.73	23.40	34.38	1932.99
FTSE SmallCap ex IT	2261.39	—	2262.11	2265.41	2262.96	2241.67	3.33	1.81	20.72	36.70	1933.67
FTSE All-Share	2242.16	+0.9	2222.17	2206.41	2181.06	1895.10	3.47	1.94	18.62	40.47	1982.78
FTSE All-Share ex IT	2241.66	+0.9	2221.12	2205.36	2179.44	-	3.51	1.95	18.23	9.22	1019.45

FTSE Actuaries Industry Sectors

	Jun 10	Day's chge%	Jun 9	Jun 6	Jun 5	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4450.39	+0.1	4446.97	4438.68	4358.29	3506.68	3.43	2.01	18.11	88.75	1993.58
12 Extractive Industries(5)	4445.64	+1.5	4382.68	4354.41	4286.86	4368.98	3.54	2.38	14.82	104.60	1358.89
15 Oil, Integrated(3)	4586.99	—	4589.13	4585.28	4500.08	3551.97	3.64	1.95	17.64	94.47	2113.04
16 Oil Exploration & Prod(12)	3776.38	-0.6	3798.97	3780.07	3714.68	2475.70	1.53	2.22	36.87	37.61	2313.44
20 GEN INDUSTRIALS(287)	1922.48	+0.8	1906.74	1900.76	1892.58	2080.42	4.17	1.91	15.67	36.19	1095.37
21 Building & Construction(35)	1386.70	+0.5	1379.44	1371.08	1370.02	1203.19	3.13	1.88	21.28	24.73	1205.92
22 Building Matls & Merchs(30)	1868.01	+1.5	1841.00	1834.76	1823.69	1913.67	4.30	2.76	10.53	36.86	984.69
23 Chemicals(26)	2446.69	+0.5	2433.52	2425.20	2400.21	2503.24	4.31	1.48	19.60	57.49	1217.38
24 Diversified Industrials(16)	1274.19	-0.3	1278.61	1283.91	1298.66	1665.16	5.72	2.00	10.94	36.57	754.92
25 Electronic & Elect Equip(38)	2044.16	+2.5	1994.34	1990.86	1985.79	2435.21	3.88	1.54	21.11	15.10	1093.26
26 Engineering(66)	2536.34	+0.2	2533.63	2517.48	2495.85	2441.70	3.34	2.51	14.90	34.21	1591.55
27 Engineering, Vehicles(13)	2878.01	+3.1	2790.35	2775.39	2738.36	3045.03	3.87	‡	‡	54.73	1549.51
28 Paper, Pckg & Printing(27)	2071.68	—	2072.66	2073.47	2068.14	2633.85	5.06	1.84	13.44	54.71	904.05
29 Textiles & Apparel(14)	1045.47	+0.3	1042.84	1035.11	1040.11	1408.59	6.69	0.97	19.21	39.41	686.56
30 CONSUMER GOODS(94)	4564.08	+1.7	4486.35	4448.08	4395.18	3532.26	3.33	1.81	20.68	86.52	1762.08
32 Alcoholic Beverages(7)	3208.27	-0.1	3212.18	3201.89	3193.31	2755.74	4.13	1.88	16.11	76.56	1219.88
33 Food Producers(25)	2957.44	+1.5	2914.33	2884.75	2856.37	2465.23	3.75	1.84	18.06	60.48	1397.85
34 Household Goods(17)	2917.80	+1.4	2878.25	2860.20	2852.49	2874.73	3.58	2.32	15.17	58.07	1201.75
36 Health Care(15)	2221.48	+1.8	2182.70	2202.89	2196.10	2093.18	2.75	1.67	27.11	35.33	1394.70
37 Pharmaceuticals(18)	7402.79	+2.1	7250.45	7175.72	7056.23	5057.24	2.49	1.71	29.25	104.77	2598.74
38 Tobacco(2)	4697.75	+3.1	4554.45	4509.58	4457.89	4354.03	5.76	1.87	11.58	158.73	1253.57
40 SERVICES(271)	2696.12	+0.6	2679.22	2668.10	2656.85	2553.92	2.95	1.97	21.53	43.39	1453.34
41 Distributors(30)	2705.96	+0.7	2688.45	2682.09	2693.60	2972.60	3.44	1.94	18.74	41.20	1033.00
42 Leisure & Hotels(31)	3486.18	+0.5	3467.79	3466.19	3419.11	3182.77	2.63	1.78	26.66	61.83	1930.95
43 Media(44)	4351.96	+0.3	4338.34	4326.66	4298.04	4201.81	2.28	1.92	28.59	59.25	1618.27
44 Retailers, Food(15)	2128.29	+1.4	2097.53	2091.48	2073.10	2089.09	3.84	2.21	14.70	51.26	1419.21
45 Retailers, General(53)	2099.50	+0.9	2080.63	2068.03	2063.76	2113.45	3.34	2.07	18.09	39.06	1249.74
47 Breweries, Pubs & Rest.(22)	3192.99	-0.1	3196.92	3186.69	3209.51	3206.51	3.50	2.19	16.32	52.32	1592.04
48 Support Services(54)	3101.53	+0.5	3086.42	3056.12	3042.44	2444.00	1.66	2.68	27.99	22.18	2017.57
49 Transport(22)	2883.81	+0.9	2858.65	2845.88	2837.74	2410.62	3.48	1.30	27.68	43.97	1252.25
60 UTILITIES(31)	2924.27	+0.9	2898.15	2896.86	2830.92	2387.89	4.78	1.50	17.40	46.68	1348.67
62 Electricity(9)	3077.76	-0.1	3079.47	3062.40	3007.63	2580.22	5.75	2.00	10.88	86.41	1735.15
64 Gas Distribution(2)	1927.85	+3.3	1865.61	1902.61	1909.34	1288.71	6.33	‡	‡	68.13	1101.13
66 Telecommunications(8)	2450.51	+1.3	2419.68	2400.40	2316.89	2046.12	3.61	1.69	20.47	13.53	1163.65
68 Water(12)	2556.03	-0.7	2574.26	2626.94	2603.38	2171.06	6.19	2.33	8.65	45.96	1504.66
69 NON-FINANCIALS(673)	2253.74	+0.8	2233.61	2224.48	2201.07	2009.21	3.59	1.84	18.92	40.00	1789.33
70 FINANCIALS(106)	4436.43	+1.0	4390.96	4316.00	4246.75	2893.32	3.25	2.38	16.19	89.94	2003.30
71 Banks, Retail(8)	6761.12	+1.1	6686.40	6536.25	6403.76	3978.88	2.97	2.65	15.87	129.00	2314.21
73 Insurance(18)	1778.45	+1.3	1755.09	1734.38	1699.30	1499.19	4.87	2.53	10.15	54.89	1421.70
74 Life Assurance(7)	5143.10	+2.2	5032.88	4971.19	4926.42	3379.25	3.42	1.96	18.62	121.00	2246.51
77 Other Financial(29)	3205.31	+0.1	3202.13	3189.27	3179.83	2660.00	3.37	1.89	19.69	57.23	1907.56
79 Property(44)	2034.74	-0.4	2041.97	2038.21	2034.35	1824.87	3.16	1.29	30.75	30.56	1306.29
80 INVESTMENT TRUSTS(127)	3444.81	+0.2	3438.81	3414.11	3402.53	3171.06	2.18	1.13	50.82	35.98	1233.49
89 FTSE All-Share(906)	2242.16	+0.9	2222.17	2206.41	2181.06	1895.10	3.47	1.94	18.62	40.47	1982.78
105 FTSE All-Share ex IT(779)	2241.66	+0.9	2221.12	2205.36	2179.44	-	3.51	1.95	18.23	9.22	1019.45
FTSE Fledgling	1285.45	+0.2	1283.08	1281.31	1280.85	1275.21	3.06	0.80	51.10	19.69	1388.49
FTSE Fledgling ex IT	1294.67	+0.2	1292.41	1291.17	1290.71	1292.15	3.38	0.78	47.53	18.14	1399.75
FTSE AIM	1070.5	-0.1	1071.6	1068.2	1070.0	-	1.02	0.88	80.00†	1.66	979.44

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4683.6	4697.9	4691.2	4684.5	4696.1	4694.3	4697.8	4709.5	4731.9	4739.6	4678.3
FTSE 250	4485.6	4489.5	4489.9	4489.6	4490.9	4491.8	4491.8	4493.2	4495.9	4497.3	4485.5
FTSE 350	2264.1	2266.2	2263.6	2269.8	2270.4	2269.0	2270.3	2275.0	2284.0	2287.2	2262.5
FTSE SmallCap	2279.49	2279.62	2278.52	2278.61	2278.16	2278.16	2278.05	2278.56	2278.25	2279.70	2278.14
FTSE All-Share	2221.16	2223.01	2220.62	2225.33	2226.81	2225.53	2226.75	2231.04	2238.26	2242.16	2218.59

Time of FTSE 100 Day's high: 4:30 PM Day's low: 8:53 AM. FTSE 100 1997 High: 4739.6 (10/06/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 4:30 PM Day's low: 8:53 AM. FTSE All-Share 1997 High: 2242.16 (10/06/97) Low: 1988.78 (22/01/97)
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FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,200	518	+2½
ASDA Group†	8,400	127½	+½
Abbey National†	4,500	895½	+12
Airtours	235	1150½	+3
Albert Fisher	2,200	35½	-¼
Alliance & Leicester	3,900	623½	+18½
Allied Domecq†	2,800	434½	
Anglian Water	832	682½	-4
Argos	2,700	585½	-10
Arjo Wiggins	3,100	188	+1
Assoc. Brit. Foods†	382	584½	+21
Assoc. Brit. Ports	2,400	357½	-1
BAA†	3,700	555	+15
BAT Inds.†	9,000	571½	+19
BBA	991	337	+1
BICC	634	175½	-½
BOC†	2,100	1031	+3½
BG†	13,300	218½	+9
BP†	8,400	743½	-8
BPB	1,200	334½	+1
BSkyB†	1,700	602½	+5
BT†	15,700	482½	+12
BTR†	17,100	184½	-2
Bank of Scotland†	7,300	404½	+20½
Barclays†	4,200	1222	+10½
Bass†	2,600	741½	-4½
Blue Circle†	2,300	438½	+8
Booker	573	279	-2
Boots†	949	727½	+19
Britannic	501	842½	+10
Brit. Aerospace†	1,300	1350	-8
British Airways†	3,000	729	-3
British Biotech	4,200	247½	-8
British Energy	3,800	154	-2
British Land†	1,400	587½	-11
British Steel†	6,500	148¾	+½
Burmah Castrol†	4,100	1008	+2
Burton†	2,300	130¼	-1½
Cable & Wire†	7,700	549	-12½
Cadbury Schweppes†	2,000	531½	-1½
Caradon	2,100	208	+1½
Carlton Comms.†	1,700	535	+3
Centrica†	4,000	68	+¼
Coats Viyella	3,300	128	+½
Comm. Union†	1,700	709	+9
Compass	1,600	703	+4½
Cookson	1,500	224½	+1½
Courtaulds	311	339½	
Dalgety	3,300	277½	
De La Rue	4,200	365	+8
Dixons†	2,700	508½	+17
EMAP	809	784½	+2
EMI†	866	1174	+18
Electrocomps	534	427½	+15
Energy Group†	3,300	580	+18½
Enterprise Oil†	1,900	688½	-9½
FKI	1,100	178½	
Foreign & Col. I.T.	2,400	168¼	+½
Gen. Accident†	732	942½	+23½
General Elect.†	18,200	353½	+17
Glaxo Wellcome†	8,000	1273	+39½
Glynwed	1,000	270	
Granada†	4,100	902½	+12½
Grand Met.†	8,000	582½	-2
GUS†	3,100	682	+8½
Greenalls	188	458½	-½
GRE†	1,900	288	+3½
GKN†	414	1030	+8½
Guinness†	3,700	578½	+½
HSBC (75p shs)†	3,500	1815½	-12
Halifax	12,600	762	+13
Hammerson	1,000	500	+2½
Hanson†	1,400	315½	+1½
Harrisons Crosfield	3,000	116½	+1½
Hays†	1,300	589½	+8½
Hillsdown	1,600	181	
Hyder	874	820	-4½
IMI	983	351½	+3
ICI†	1,900	863	+2½
Imperial Tobacco†	1,100	388	+2½
Inchcape	1,400	281½	-2
Johnson Matthey	248	463	-2½
Kingfisher†	3,100	740	+2½
Kwik Save	93	285	+1
Ladbroke†	3,700	250½	+2
Land Securities†	1,300	878	-6
Laporte	299	671	+1
Legal & General†	3,000	472	+20½
Lloyds TSB†	11,100	646	+27
LASMO†	5,800	272½	-3
Lonrho	880	135½	-½
LucasVarity†	8,800	209	+14½
MEPC	906	520½	-½
MFI	831	129	+3
Marks & Spencer†	6,800	514½	+6½
Mercury Asset Man†	231	1365½	+½
Morrison (Wm.)	2,400	153½	
NFC	2,200	141½	+3
NatWest Bank†	9,000	804	-12
National Grid†	4,400	215½	-1½
National Power†	3,700	519	-8½
Next†	2,100	741	+17½
Northern Foods	2,700	206½	+6½
Orange†	1,200	214½	+2½
Pearson†	1,800	706	-½
P & O†	1,900	621	-4
Pilkington	11,200	119½	+3
PowerGen†	2,100	681	+2
Premier Farnell	302	482½	-1½
Provident Financial	287	574½	+1
Prudential†	3,200	664½	+13½
REXAM	1,100	270	-5
RMC†	640	954½	+35½
Racal	749	225	-2
Railtrack†	478	658	+11½
Rank Group†	3,500	431½	-2
Reckitt & Colman†	891	861	+13½
Redland	1,300	325	
Reed Intl.†	1,200	595½	-1½
Rentokil Initial†	4,000	234	+3
Reuters†	2,800	691	+2
Rio Tinto†	3,300	1067	+17½
Rolls Royce†	3,500	252	+2
Royal & Sun Alliance†	3,400	487	+8½
Royal Bk Scotland†	2,700	641½	+10½
Safeway†	2,100	359½	+5½
Sainsbury†	3,300	361½	+10½
Schroders†	155	1680	+7½
Scottish & New.†	2,100	670	-4½
Scot. Hydro-Elect.	470	400½	-½
Scottish Power†	2,100	378½	+3
Sears	1,400	74	
Securicor	3,900	281½	
Severn Trent†	1,400	765	-5
Shell Transport†	3,500	1218½	+12½
Siebe†	2,700	963½	+3½
Slough Ests	3,300	323½	+1½
Smith (W.H.)	713	420	-1½
Smith & Nephew†	4,700	171¼	+3¼
SmKl Beecham†	4,000	1091	+15½
Smiths Inds.†	394	784½	+7
Southern Elect	1,200	418	-3
South West Water	504	694	-3½
Stagecoach	87	691	+2
Standard Chartd.†	2,800	972½	+13½
Storehouse	3,800	189½	+8
T&N	2,600	138½	+8
TI Group†	1,900	556½	-½
Tarmac	7,700	130	+1
Tate & Lyle†	9,100	454	
Taylor Woodrow	627	203½	
TeleWest Comms	6,000	84	+8
Tesco†	4,200	377	+½
Thames Water†	824	682½	-8
Thistle Hotels	12	172	
Thorn	2,800	188	
Tomkins†	9,300	238	-2
Unigate	1,100	497	+2½
Unilever†	1,400	1692½	+37½
United Assurance	932	466½	-3½
United Biscuits	[illegible]	[illegible]	[illegible]
Vodafone†	[illegible]	[illegible]	[illegible]
Whitbread†	[illegible]	[illegible]	[illegible]
Williams	[illegible]	[illegible]	[illegible]
Wolseley†	[illegible]	[illegible]	[illegible]
WPP Group	[illegible]	[illegible]	[illegible]
Yorkshire Elect.	[illegible]	[illegible]	[illegible]
Yorkshire Water	[illegible]	[illegible]	[illegible]
Zeneca†	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are unaudited. Source: part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 10 / Sch)

BELGIUM/LUXEMBOURG (Jun 10 / Frs.)

CZECH REP (Jun 10 / Koruna)

DENMARK (Jun 10 / Kr)

FINLAND (Jun 10 / Mks)

FRANCE (Jun 10 / Frs.)

		+/-	High	Low	Yld	P/E
AGF	170.50xd	-.60	231.40	126.20	2.9	15.1
Accor	870	-12	912	606	2.3	25.4
AirLiq	915	-4	945	758	1.5	24.1
Alctel	624	...	706	368	1.6	37.4
ArjPn	1,550	...	1,749	1,200	1.4	...
Axa	330.50	-2.10	383.10	262.80	2.2	20.5
BIC	890	-2	980	622	1.2	36.0
BNP	226.50	+1.50	279	171	2.4	12.2
Bncair	680	-1	815	457.20	1.5	...
BFaure	286.70	-.20	301	159	1.4	16.2
Bongrn	2,330	-22	2,620	1,895	2.7	13.2
Bygues	518	-3	618	444.60	3.3	18.2
CGIP	1,680	-19	1,848	1,118	3.3	...
Canal+	1,007	-12	1,339	948	3.0	...

GERMANY (Jun 10 / Dm.)

GREECE (Jun 10 / Drachma)

ITALY (Jun 10 / Lire)

NETHERLANDS (Jun 10 / Fls.)

NORWAY (Jun 10 / Kroner)

POLAND (Jun 10 / Zloty)

PORTUGAL (Jun 9 / Escudo)

SPAIN (Jun 10 / Pts.)

SWEDEN (Jun 10 / Kronor)

SWITZERLAND (Jun 10 / Frs.)

TURKEY (Jun 10 / Tk Lira)

PACIFIC

JAPAN (Jun 10 / Yen)

AUSTRALIA (Jun 10 / Aus$)

HONG KONG (Jun 10 / H.K.$)

INDONESIA (Jun 10 / Rupiah)

MALAYSIA (Jun 10 / MYR)

NEW ZEALAND (Jun 10 / NZ $)

SINGAPORE (Jun 10 / S$)

SOUTH KOREA (Jun 10 / Won)

TAIWAN (Jun 10 / TW $)

THAILAND (Jun 10 / Baht)

AFRICA

SOUTH AFRICA (Jun 10 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 10 / Can $) 4 pm close

MONTREAL (Jun 10 / Can $) 4 pm close

INDICES

	Jun 10	Jun 9	Jun 6	1997 High		1997 Low	
Argentina							
General(29/12/77)	(u)	(c)	22841.77	22841.77	6/6	18237.37	2/1
Australia							
All Ordinaries(1/1/80)	2528.9	(c)	2600.9	2628.90	10/6	2352.20	1/4
All Mining(1/1/80)	937.8	(c)	936.5	987.30	24/2	878.40	18/4
Austria							
Credit Aktien(30/12/84)	419.18	428.54	429.15	431.07	5/6	374.40	9/1
Traded Index(2/1/91)	1297.73	1298.43	1305.35	1310.70	27/5	1130.22	9/1
Belgium							
BEL20(1/1/91)	2352.15	2339.64	2309.93	2352.15	10/6	1871.05	2/1
Brazil							
Bovespa(29/12/83)	(u)	11396.0	11334.0	11361.00	2/6	0.00	29/4
Canada							
Metals Mins♦(1975)	(u)	5453.96	5443.10	5881.25	10/3	4845.96	11/4
Composite♦(1975)	(u)	6467.40	6482.10	6482.10	6/6	5879.30	14/4
Portfolio§§(4/1/83)	(u)	3280.31	3293.57	3309.04	26/5	2946.82	11/4
Chile							
IGPA Gen♥(31/12/80)	(u)	5858.11	5672.80	5736.98	2/6	4912.42	2/1
Denmark							
CopenhagenSE(3/1/83)	598.71	585.80	581.29	598.71	10/6	478.14	2/1
Finland							
HEX General(28/12/90)	3109.54	3111.21	3075.81	3128.08	23/5	2483.28	2/1
France							
SBF 250(31/12/90)	1766.44	1779.31	1785.19	1838.29	16/5	1833.19	2/1
CAC 40(31/12/87)	2664.18	2688.20	2719.25	2786.35	21/5	2289.87	2/1
Germany							
FAZ Aktien(31/12/58)	1250.38	1262.77	1261.01	1282.77	9/6	986.21	2/1
Commerzbank(1/12/53)	3689.50	3700.40	3692.80	3700.40	9/6	2875.80	2/1
DAX‡(30/12/87)	3665.01	3667.43	3695.29	3695.29	6/6	2848.77	2/1
Greece							
Athens SE(31/12/80)	1603.84	1589.70	1592.35	1727.70	23/5	984.54	2/1
Hong Kong							
Hang Seng(31/7/64)	14439.71	(c)	14855.13	14880.90	2/6	12055.17	3/4
India							
BSE Sens (1979)	3880.97	3835.35	3836.44	3944.01	4/3	3225.34	2/1
Indonesia							
Jakarta Comp (10/8/82)	689.76	692.50	685.01	712.80	28/2	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3346.68	3344.07	3345.01	3348.88	10/6	2725.07	2/1
Italy							
Banca Comm Ital(1972)	758.01	759.56	768.23	787.71	10/2	842.55	2/1
MIB General(2/1/97)	1140.9	1142.0	1157.0	1187.00	10/2	991.00	2/1
Japan							
Nikkei 225(16/5/49)	20632.55	20223.82	20485.75	20811.56	4/6	17303.85	10/1
Nikkei 300(1/10/82)	292.10	290.14	291.56	288.64	6/5	251.04	27/1
Topix(4/1/68)	1513.99	1504.92	1509.66	1518.27	4/6	1328.82	10/4
2nd Section(4/1/68)	1808.54	1802.23	1808.87	1829.21	6/1	1598.50	15/4
Malaysia							
KLSE Comp.(4/4/86)	1110.36	1117.29	1117.31	1271.57	25/2	1041.27	15/6
Mexico							
IPC(Nov 1978)	(u)	4126.30	4160.85	4160.85	6/6	3368.46	2/1
Netherland							
CBS TtlRtnGen(End 83)	974.4	974.1	968.7	974.40	10/6	730.80	2/1
CBS All Shr(End 83)	583.0	582.8	559.7	583.00	10/6	428.00	2/1
New Zealand							
Cap. 40(1/7/86)	2367.55	2371.02	2376.14	2449.21	20/1	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	1979.85	1980.60	1973.87	1990.80	9/6	1639.03	2/1
Philippines							
Manila Comp(2/1/85)	2775.11	2778.37	2762.80	3447.60	3/2	2489.38	20/5
Portugal							
BVL 30(4/1/93)	(u)	3024.82	3002.63	3024.82	9/6	2185.57	2/1
Singapore							
SES All-S'pore(2/4/75)	493.05	497.51	500.68	523.93	17/2	478.94	28/4
South Africa							
JSE Gold(28/9/78)	1177.1♥	1181.3	1175.6	1588.19	27/2	1140.30	5/6
JSE Ind.(28/9/78)	8501.4♥	8519.2	8477.2	8588.70	6/5	7859.50	2/1
South Korea							
KoreaCmpEx**(4/1/80)	769.83	775.01	(c)	775.01	9/6	611.05	7/1
Spain							
Madrid SE(30/12/85)	566.81	566.99	574.95	577.76	27/5	494.54	2/1
Sweden							
AffarsvarldsGen(1/2/37)	2925.2	2900.7	2905.4	2925.20	10/6	2378.50	2/1
Switzerland							
SMI Index(1/7/88)	5361.9	5368.8	5320.0	5368.80	9/6	3822.60	7/1
SPI General(1/6/87)	3391.34	3393.20	3368.53	3393.20	9/6	2506.22	6/1
Taiwan							
WeightedPr.**(30/6/66)	8392.98	(c)	8342.94	8881.72	26/4	6844.75	8/1
Thailand							
Bangkok SET(30/4/75)	527.22	534.46	530.62	858.97	22/1	527.22	10/6
Turkey							
IMKB Nat 100(1986)	1644.00	1647.00	1669.00	1675.00	5/6	895.00	2/1
WORLD							
MS Capital Intl(1/1/70)	921.9*	918.6	910.5	921.90	10/6	794.50	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2381.52	2388.87	2376.85	2388.87	9/6	1883.80	2/1
FTSE E 100(26/6/90)	2048.71	2031.84	2034.24	2048.71	10/6	1582.98	2/1
HSBC JC Drgn(31/12/88)	(u)	418.14	419.19	429.46	20/1	383.84	29/4
ING Brngs Emrg(7/1/92)	182.98	182.84	181.45	182.84	9/6	159.74	3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Jun	2659.0	2646.0	-22.0	2685.0	2632.0	583	36,619
Jul	2656.0	2644.0	-22.0	2659.0	2630.0	152	4,591
■ DAX							
Jun	3676.0	3673.0	+3.0	3697.0	3648.0	20,976	149,102
Sep	3701.0	3700.5	+8.0	3713.0	3676.0	4,575	15,571
■ OMX							
Jun	2295.00	2284.00	-2.00	2307.00	2264.00	4,654	27,931
Jul	2291.00	2312.00	+17.25	2312.00	2272.00	47	2,145
■ SOFFEX							
Jun	5355.0	5344.0	-10.8	5368.0	5312.0	4,328	22,516
Jul	5329.0	5343.0	+17.0	5385.0	5326.0	296	4,410

** Sat June 7. Taiwan Weighted Price 8567.48; Korea Comp Ex 782.77. Base values of all indices are 100 except: Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins. DAX - all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 20 Ind - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ EIS/DAX after-hours index: Jun 10 - 3671.16 +2.55. † Correction. * Calculated at 15.00 GMT. @ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ▲ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jun 9	Jun 6	Jun 5	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7478.50	7435.78	7305.29	7478.50 (9/6)	6391.69 (11/4)	7478.50 (9/6/97)	41.22 (8/7/32)
Home Bonds	102.63	102.47	102.39	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2699.00	2718.15	2683.55	2718.15 (6/6)	2222.07 (2/1)	2718.15 (6/6/97)	13.23 (8/7/32)
Utilities	221.00	222.33	221.11	240.65 (22/1)	209.47 (25/4)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7548.52 (7473.96) Low 7412.44 (7290.26) (Theoretical▲)
Day's high 7511.53 (7445.22) Low 7437.98 (7304.66) (Actual▲)

Standard and Poors	Jun 9	Jun 6	Jun 5	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	882.91	858.01	843.43	882.91 (9/6)	737.01 (2/1)	882.91 (9/6/97)	4.40 (1/6/32)
Industrials♥	1016.11	1008.72	991.58	1016.11 (9/6)	865.42 (11/4)	1016.11 (9/6/97)	3.52 (30/6/32)
Financial	98.01	97.58	98.05	98.01 (9/6)	80.75 (2/1)	98.01 (9/6/97)	7.13 (4/9/74)
NYSE Comp.	450.17	448.13	441.64	450.17 (9/6)	399.47 (11/4)	450.17 (9/6/97)	4.64 (25/4/42)
Amex Comp.	619.57	614.65	610.75	619.57 (9/6)	541.20 (28/4)	619.57 (9/6/97)	524.20 (16/7/96)
NASDAQ Cmp	1412.04	1404.84	1390.05	1412.04 (9/6)	1201.00 (2/4)	1412.04 (9/6/97)	54.87 (3/10/74)

■ RATIOS

	Jun 6	May 30	May 23	Year ago
Dow Jones Ind. Div. Yield	1.70	1.73	1.69	2.16
	Jun 4	May 28	May 21	Year ago
S & P Ind. Div. yield	1.69	1.67	1.67	1.83
S & P Ind. P/E ratio	23.32	23.66	23.39	22.74

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
WestingH	14,803,800	21⅞	+1⅜
Philip M	5,034,500	42¾	+⅛
AT & T	4,749,500	36⅛	+⅛
Chase Man	4,069,000	97⅝	-2⅜
Boeing	3,964,900	55⅝	+¾
Pepsico.	3,875,100	37⅛	+⅜
IBM	3,617,500	86⅝	+1⅜
ADV Micro	3,598,700	40⅝	+2
Time Warn	3,421,700	47⅝	+1
CUC Intl	3,382,000	23⅝	+½

■ TRADING ACTIVITY

● Volume (million)	Jun 9	Jun 6	Jun 5
New York SE	465.574	488.349	452.623
Amex	22.492	28.809	21.124
NASDAQ	568.404	595.762	571.274
NYSE			
Issues Traded	3,380	3,363	3,334
Rises	1,419	1,711	1,398
Falls	1,088	736	980
Unchanged	853	916	876
New Highs	334	313	206
New Lows	8	7	11

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Jun	886.80	884.35	-1.50	886.80	884.35	73,349	146,987
Sep	875.40	873.40	-1.30	875.40	873.40	14,104	54,932

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Jun	20300.0	20600.0	+330.0	20610.0	20260.0	18,251	168,266
Sep	20350.0	20670.0	+330.0	20670.0	20300.0	11,854	129,063

Open interest figures for previous day.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, June 10, 1997

	Stocks Traded	Closing Prices	Change on day
Toshiba Corp	4.6m	748	+3
Nippon Steel Cp	4.6m	346	
Sakura Bank	3.6m	760	+11
Mitsubishi Elect	3.4m	690	+2
Hitachi	3.4m	1250	
Nomura Sec	3.4m	1390	+40
Nippon Oil	3.3m	640	+16
Nissan F & M Ins	2.8m	890	+26
Bk Tk-Mitsubishi	2.5m	2060	+10
Mitsubishi Heavy	2.4m	864	+2

4 pm close June 10

NEW YORK STOCK EXCHANGE PRICES

- A -

[illegible]

- B -

1997 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
42	35	BBATCp	1.08	2.8	15	20	u42⅛	42⅛	42⅛	+⅛
28¾	22	BCE			31	1327	u28⅞	28¼	28¾	+¼
8¼	6⅞	Balmco x	0.20	2.5	9	443	u8⅜	8	8⅛	-⅛
19¼	16¾	Baker Fent	0.37	2.0		238	19	18¾	18⅞	-¼
41¼	32⅞	BakerH	0.46	1.2	26	11871	38¼	37½	38	+⅜
29½	24¼	Baldor Elc x	0.48	1.7	21	401	u29⅝	29	29	-¼
30¼	23¾	BallCp x	0.60	2.0		380	29¾	29⅛	29⅜	-⅛
21¼	17⅞	BlltdMd	0.05	0.3	20	498	19⅝	19⅝	19⅝	-⅛
28	24¾	BaltGE x	1.60	6.2	12	658	25⅞	25½	25⅞	+¼
49¼	30¼	BncOne	1.52	3.5	13	10799	43⅝	43½	43¾	+⅜
76½	52¼	BancoBil V	1.67	2.2	25	47	76⅝	76	76¼	-¼
17⅞	12⅛	BCH	0.30	1.9	52	58	16⅜	16¼	16¼	-⅛
19¼	13	BCP ADR	0.34	1.8	15	3057	u19¼	19⅛	19¼	
51⅞	45	Bandag	1.00	2.0	14	276	50¼	49⅝	49¾	+¼
126½	95⅛	BankAm x	2.44	1.9	16	10204	125½	123⅝	125⅜	+1⅜
44½	32¾	BankNY	0.96	2.2	17	6836	u44⅝	43⅞	44⅝	+1
19⅛	13⅞	BTM ADR x	0.06	0.3		727	18⅜	18⅛	18⅜	
50¼	47¾	BankAm A	3.25	6.6		32	49⅝	49½	49½	
95	90¾	BankAm B	6.00	6.3		3	u95⅛	95⅛	95⅛	+⅛
79½	61⅞	Bkbstn	2.04	2.7	17	4274	75⅞	74⅛	75⅝	+1⅜
87	79	BkbosO.58 x	5.56	6.5		4	85½	85½	85½	+1
47¾	45½	BkbostnA x	3.04	6.6		5	46¼	46¼	46¼	+¼
86¼	74	BnkTsr	4.00	4.6	12	4394	87⅞	86⅜	87¼	+¾
84	69¾	Bclays	2.12	2.7	15	100	80	79⅛	79¾	+⅝
33⅞	25⅞	Bard (C R)	0.68	2.1	20	1014	u33⅝	33	33	-⅜
28½	19.80	Barnes Grp x	0.60	2.3	14	370	26½	26	26½	+⅜
53⅞	39	BarnGk x	1.08	2.1	17	6095	53¼	52⅛	52⅝	-⅝
28¾	21½	BrckGd x	0.14	0.6	44	3439	24½	24¼	24½	
12¼	9½	BarryRG			14	251	12⅛	11⅞	12	+⅛
7⅝	5⅝	BattlMt	0.05	0.8		2012	6¼	6⅛	6¼	
43½	32½	Bausch x	1.04	2.4	38	789	u43½	42⅞	43⅜	+½
53⅞	39⅞	Baxter x	1.13	2.1	62	4870	u54¼	53⅛	54	+⅛

- C -

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- D -

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- E -

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4 pm close June 10

NYSE PRICES

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Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
§ Dealings suspended.

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AMEX PRICES

4 pm close June 10

[illegible]

NASDAQ NATIONAL MARKET

4 pm close June 10

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- J -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
J&J Snack		25	76	u18	15 3/8	15 3/8	-1/4
Jason Inc		15	364	6 3/8	6 1/4	6 3/8	+1/8
Johnson W			2	12 1/4	12 1/4	12 1/4	-1/8
Jones Int			1158	u13 1/4	12 3/4	13	+1/4
Jones Med	0.10	55	2023	u44	42 3/4	43 5/8	+7/8
JSB Fin	1.40	17	20	u45	43 3/4	45	+1 3/8
Juno Ltg	0.32	14	206	16 3/4	16 1/2	16 1/2	-1/8
Justin	0.16	14	431	u12 5/8	11 7/8	12 1/8	-3/8

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	332	206	13 1/2	13 1/4	13 5/16	+1/16
Kaman Cp	0.44	25	372	14 3/8	14	14 1/16	-3/8
Kelly Sv x	0.84	14	458	28 5/8	27 7/8	28 1/4	-1/2
Kimball	1.04	14	181	40 1/8	39	39	-1 1/4
KLA-Tn		22	31711	46 3/4	42 7/16	43 1/4	-4 1/2
Koll A			852	1/8	d3/16	3/32	
Komag§		16	9589	27 3/4	26 1/2	26 13/16	-1/4
Kulicke S			12447	30 1/4	26 3/4	27 1/8	-3 1/4

- P - Q -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Pixar		27	2745	14 7/8	14 1/8	14 1/2	
PiHwrdA		41	591	22	21 3/4	21 7/8	-1/8
PLDTel		6	z0	5 5/16	5 5/16	5 5/16	-1/16
Pacebk	0.88	8	68	19 5/8	19 1/4	19 5/8	+1/8
Powell		15	251	u15 7/8	14 7/8	15 7/8	+5/8
ProsCas			451	15/32	d1/2	1/2	-1/32
Pres Life	0.20	12	3259	14 7/8	14 5/8	14 7/8	+1/8
Prestek		164	1891	89 3/4	85 5/8	87	-2 3/4
PridePtr§		10	7070	22	21 7/8	21 3/4	
Printronl		18	376	14 1/2	14	14 1/4	+1/4
Prod Ops	0.28	34	350	68 3/4	68	68 3/4	-1
Qualcomm		95	18887	49 3/8	46 5/8	46 5/8	-2
Qual Food		21	z0	39 1/8	39 1/8	39 1/8	+1/2
Quantum		22	32380	21	19 1/4	19 3/4	-5/32
Quickslv		20	2882	32 1/2	31 1/4	32 1/2	+3/8
Quintiles		226	2926	68 3/4	66 5/8	67 13/16	+13/16

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow§		13	153	17 3/8	16 1/2	17 3/8	+1/2
Rallys			313	2 7/8	2 11/16	2 13/16	-1/8
Raymond	0.25	17	1252	u34	33 1/2	33 3/4	+1/4
RCSB Fin	0.60	15	1073	u43 1/8	42 3/8	42 11/16	+5/16
Read-Rite			17674	25	22 1/2	23 1/8	-1 3/4

- W -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Warmtech		34	181	11 7/8	11 1/2	11 1/2	-1/4
WashMut	1.00	15	34187	57 5/8	55 5/8	56 13/16	-3/16
WatsindA x	0.31	16	323	25	24 1/4	24 7/8	-1/4
Wausau PM	0.25	14	610	19 1/2	18 1/2	18 3/4	-3/8
WD-40	2.48	20	69	57 1/2	55 1/4	55 13/16	-1 9/16
Werner En	0.10	18	315	20 1/4	19 3/4	20	-1/8
Weston Bnc	1.04	17	122	69 3/4	68 3/4	69 3/4	+1 3/4
WhptSIA		20	2547	38 1/2	37 7/8	37 7/8	-3/8
Wet SealA		22	575	29 1/4	28 3/4	29 1/4	+1/4
WmsSonoma		42	4912	37 1/2	36 1/4	36 3/4	
Wolohan L x	0.28	12	29	12 1/2	12 1/4	12 1/2	+3/8
Worldcm			67635	28 3/4	27 7/16	28 11/16	+1 1/4
Wrthinds x	0.52	20	2046	18 7/8	18 5/16	18 5/8	
WPP ADR	0.10	22	72	41 5/8	41 1/4	41 1/4	-1/4
Wyman-Gdn	0.40	33	3845	u26 1/2	25 1/2	26	

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx§		32	31872	48 3/4	45 7/8	47 1/16	-3 1/2
Xircom		18	6127	12 7/8	12 1/4	12 5/16	-9/16
Xoma Corp			3298	5 3/16	4.77	5	
Yellow			3707	20 5/8	19 1/4	20 5/8	+1 1/4
York Rsch		14	702	7	6 5/8	6 7/8	+1/16
ZionUtah	0.44	18	10598	30 1/8	29 5/8	29 1/2	+3/8

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5.25	-0.25	6000	8.25	4.375	Esprit Telecom ADS	US$8.125	+0.25	0	12.25	5.375
Artwork Systems	US$10.625		10861	11.125	9.5	Innogenetics	US$11.75		3843	12.75	10.375
Chemunex	FFr14.5		82500	18	14	Mercer Internat.	US$10.25	-0.25	0	11.75	8.125
Dr Solomon's ADS	US$21.125	+0.125	0	26.5	16.875	PixTech	US$4.125		0	6.125	3.875

Prices for 10/6/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

FINANCIAL TIMES Wednesday June 11 1997

Dow gains as bond yields slip lower

AMERICAS

US blue chips continued to hit fresh records at mid-session, boosted by a helpful interest rate backdrop, *writes Jane Martinson in New York.*

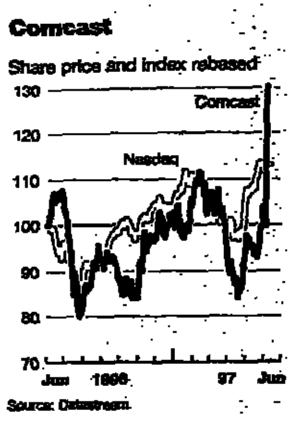
The Dow Jones Industrial Average, which had hit all-time highs over the previous two sessions, was up 50.20 to 7,528.70 at 1pm after strong gains in early morning trade. The broader based S&P 500 index gained 2.31 at 865.22.

Bond prices provided some support after losing ground on Monday.

The benchmark 30-year bond rose 5/32 to 97 13/32, reducing the yield to 6.809 per cent.

However, technology stocks appeared to suffer profit-taking after their recent record-breaking performance. The Nasdaq composite index fell 5.62 at 1,406.43 with bigger companies such as Intel losing ground. The Russell 2,000, the smaller company index, edged down 0.25 to 387.65.

In spite of the morning's mixed performance, Mr Dick McCabe, chief market analyst at Merrill Lynch, believes that the rally has a few more months to run. "We are persistently seeing good breadth in the recovery and the bond market is acting better," he said.



However, the strength of the rally so far gives a fair "chance or likelihood of a moderate pullback or consolidation in June".

Some technology stocks bucked the trend yesterday. America OnLine gained $1¼ or 2 per cent to $58⅝, a 52-week high, after announcing an internet agreement with CUC International, the consumer services group. The latter gained $⅛ or 3 per cent to $24⅞.

Comcast rose almost 4 per cent, adding $⅞ at $22⅝ following Monday's news that Microsoft planned a $1bn investment in the cable television company.

The transport sector continued to perform badly with a fall of 37.62 to 2,661.38. Analysts attributed weakness among airline stocks to oil price fears. Boeing stood out from the crowd with an increase of $1¼ or more than 2 per cent to $56⅞ after new orders from British Airways and Continental Air were announced.

Chrysler rose $⅛ to $33 after announcing plans for a third of its mini-vans to use ethanol, an environmentally friendly fuel.

TORONTO continued to sit out the upsurge on Wall Street with leading stocks edging higher but having little impact on the leading indices. At the noon calculation, the 300 composite index was up a modest 8.59 at 6,476.00.

Royal Bank of Canada gained 20 cents to C$59.90 with investors focusing on the 2 cents higher quarterly dividend and paying scant attention to a downgrade for its preferred shares from Dominion Bond Rating Service.

Among industrials, Northern Telecom added 40 cents to C$121.30 and Newbridge Networks gained 30 cents to C$56.30. Alcan Aluminium put on 55 cents to C$50.55. Seagram added 55 cents at C$57.85.

Renault adds to Emu concerns in Paris

EUROPE

Sentiment in PARIS, deeply disturbed by Emu uncertainty, was given a fresh battering late in the session yesterday when Renault hinted that plans for the closure of its Belgian plant may be reconsidered.

Shares in the motor giant plunged 4.6 per cent after the company told shareholders at the annual meeting that it was to commission an independent study to explore alternatives to the Vilvoorde closure.

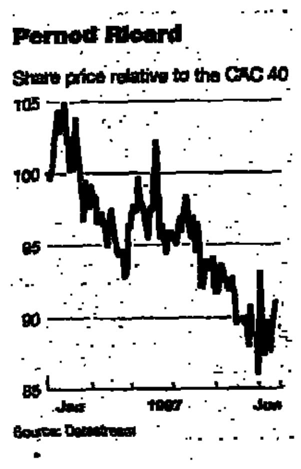
The shares, which stood at FFr159 earlier this year, ended FFr6.20 lower at FFr137.80.

Peugeot came off FFr14 at FFr546 in sympathy and components supplier Valeo shed FFr7.50 to FFr344.8. Promodes, a strong market lately, ran into profit-taking, slipping FFr70 to FFr2,100.

Pernod Ricard stood out against the general downturn, charging ahead by more than 3 per cent on the news that its Orangina soft drinks unit was to become the sole supplier of orange drink to the McDonald's fast food chain across France.

The shares gained FFr8.90 to FFr300.8.

At the close, the CAC 40 index was off 22.02 at 2,664.18 for a two-session decline of almost 2 per cent.



AMSTERDAM pushed up to a record high, its fifth landmark in succession, but otherwise traded quietly. At the close, the AEX index was up 1.31 at 830.64 for a five-day improvement of almost 2.5 per cent.

Ahold stayed firm ahead of tomorrow's first-quarter results statement. This leading retailer is widely expected to show rapid earnings growth and the shares gained a further Fl 2.40 to Fl 155 in 1.3m shares traded. Hagemeyer, the trading group in which First Pacific of Hong Kong has a 36 per cent stake, was the day's top performer, adding F 2.00 to Fl 97.50.

Among smaller caps, Vendex continued to weaken, retreating Fl 3.60 to Fl 105.6 for a three-day decline of 6 per cent. ASM Lithography fell Fl 4.10 to Fl 95.80 and Baan Fl 1.00 to Fl 15.40.

FRANKFURT was little changed in late Ibis trading, in spite of strong early gains on Wall Street as uncertainties about Emu again dampened market sentiment.

The Ibis-indicated Dax closed 2.55 higher at 3,673.16 in turnover that edged back from Monday's DM10.7bn to DM10.6bn.

One analyst attributed the market's dull performance to a rumour that Mr Helmut Kohl, the chancellor, had made a speech saying that if the euro criteria were to be softened, it would be better if the D-Mark was not included at all.

However, a government official said he was unaware of any such statement by Mr Kohl, who was said to be holding talks with Mr Li Ruihuan, a senior Chinese politburo member.

Among individual stocks, Deutsche Telekom picked up DM1.10 to DM41.40, close to a strong resistance point at DM40.50.

Many dollar-sensitive shares recouped some of Monday's losses. Volkswagen rose DM7 to DM1,193 and Schering was DM4.90 higher at DM189.

STOCKHOLM rallied, adding 16.00 to 2,888.69 on the general index thanks mostly to a strong showing by Ericsson and Pharmacia&Upjohn.

The former improved SKr4 to SKr286 and the drugs giant gained SKr8.50 to SKr277.5.

Atlas Copco ran into a burst of selling in the wake of Monday's news of a $900m US takeover. The consensus among analysts was that Atlas Copco was overpaying. Lehman Brothers downgraded from "outperform" to "neutral" and the shares ended SKr5.50 lower at SKr209.5.

ZURICH pulled back, consolidating the gains that had taken the market to successive record-setting closes over the previous five sessions. The SMI edged down 6.9 to 5,361.9.

Analysts noted that strong interest in selected cyclical shares, and the firm opening on Wall Street, failed to trigger follow-through buying.

ABB rose SFr43 to SFr2,173 as the group said that it had won a SFr150m order to build a high-voltage switching gear substation in Saudi Arabia.

Sulzer advanced SFr77 to SFr1,280 on positive expectations ahead of the release of details of Sulzer Medica's spin off, scheduled to be announced at the end of this month or at the beginning of July.

Roche lost another SFr65 at SFr13,105 on increasing switching into Novartis.

Among the financials, CS Group fell a further SFr3.50 to SFr191.50 as rumours subsided of large restructurings.

MILAN was easier but off its lows, again weighed down by a weaker lira and bond futures due to the uncertainty on Emu.

Telecom shares continued to be penalised by the government's decision not to convert Stet and Telecom Italia savings shares into ordinary stock.

Stet savings shares lost L117 to L5,559 and the ordinaries fell L124 to L8,422 while Telecom Italia savings shares gave up L87 to L3,165 and the ordinaries L65 to L4,572.

Fiat lost L43 to L5,792 in spite of news that May car registrations rose by 43 per cent over the year earlier figures.

Parmalat recouped L21 to L2,332 after Monday's losses which followed news of its plans to buy Canada's Ault Foods.

Eni rose L76 to L1,872 after the company said that it expected to make L1,000bn in cost savings by 2000 and had a goal of 14 per cent return on capital employed.

MADRID recovered from the day's lows in late trade to close little changed with the general index 0.18 easier at 566.81.

Telefónica rose Pta40 to Pta4,375, while Repsol was up Pta10 at Pta6,330.

Endesa fell Pta160 to Pta11,140, with dealers citing the differences in the offer price made by the Endesa-led consortium, and the sharply lower figure offered by that headed by BCH, for 60 per cent of Retevision.

BCH fell Pta40 to Pta4,800, while among other banks Argentaria was up Pta140 at Pta7,980 and Banco Santander shed Pta100 to Pta4,340.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices — THE EUROPEAN SERIES

Jun 10	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2363.52	2361.83	2361.12	2378.01	2381.35	2381.54	2381.53	2381.52
FTSE Eurotrack 200	2413.38	2415.30	2415.92	2418.82	2417.50	2420.19	2424.85	2427.86

	Jun 9	Jun 6	Jun 5	Jun 4	Jun 3
FTSE Eurotrack 100	2368.87	2378.85	2368.87	2357.70	2344.14
FTSE Eurotrack 200	2414.38	2401.58	2384.62	2372.87	2366.99

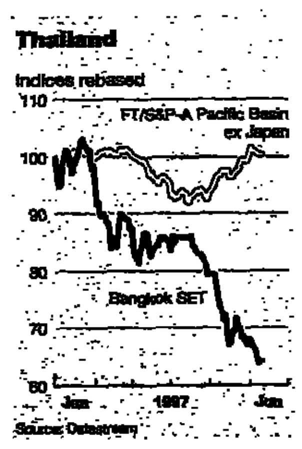
Base value 1000 (26/10/90). High/day: 100 - 2384.22; 200 - 2427.91 Low/day: 100 - 2361.36; 200 - 2408.?? † Partial

Tokyo recoups 1.5% after four-day losing streak

ASIA PACIFIC

Tokyo surged back from four consecutive days of losses to gain 1.5 per cent, as futures prices rose on the dollar's stabilisation against the yen and prompted arbitrageurs to buy cash stocks, *writes Gwen Robinson.*

The Nikkei 225 average jumped 308.73 to 20,532.55 after moving between 20,227.92 and 20,582.16. The market opened higher as investors picked up bargain stocks after the 225 index lost nearly 400 points over the preceding few sessions.



Export-led issues still suffered the effects of the dollar's plunge against the yen the previous day, but domestic demand-driven stocks maintained their recent popularity, led by non-life insurers, pharmaceuticals and retailers. Analysts said the market was waiting for publication today of Japan's April current account surplus data as a guide to the dollar's near-term direction.

The Topix index of all first-section stocks rose 9.07 to 1,513.99 and the capital-weighted Nikkei 300 was up 1.96 at 292.10. Volume swelled from 363m shares to an estimated 330m. Advances led declines 672 to 404, with 171 unchanged.

In London, the ISE/Nikkei 50 index rose 2.54 to 1,590.05.

Domestic demand-driven stocks, little affected by foreign-exchange volatility, continued to draw buying interest, led by non-life insurers. Yasuda Fire and Marine Insurance rose Y21 to Y742 and Tokio Marine and Fire Insurance Y20 to Y1,440. Among other domestic-reliant sectors, pharmaceuticals and retailers advanced. Yamanouchi Pharmaceuticals added Y50 to Y3,000 and Takeda Chemical Y40 to Y3,080.

Jusco, the supermarket operator, strengthened Y40 to Y4,110 in spite of rumours that investigators were examining possible connections between senior executives and the widening scandal surrounding Dai-Ichi Kangyo Bank and Nomura Securities.

After the market closed, Jusco's president, a former DKB executive, was arrested in connection with charges that Nomura and DKB had dealings with corporate racketeers.

Other retailers advanced. Seven-Eleven Japan added Y30 to Y8,750 and Tokyu Department Store Y22 to Y465.

Dai-Ichi Kangyo Bank, meanwhile, rose Y40 to Y1,330 and Nomura added Y40 to Y1,390.

Export-reliant stocks were mixed on concerns about renewed exchange-rate turbulence. Sony added Y60 to Y9,900 while TDK fell Y90 to Y8,500.

In Osaka, the OSE average added 103.22 to 21,222.69 and volume swelled to 17.5m shares.

BANGKOK closed sharply lower following a further round of market regulation from the Bank of Thailand. The SET index fell 7.24 or 1.4 per cent to 527.22 on turnover of Bt3.9bn.

The central bank has asked institutions providing custodian service not to transfer unpaid stocks among foreign investors. The central bank has also required foreigners dealing in Thai stocks to settle in US dollars.

Within the overall decline, the banking sector moved higher on bargain-hunting. Bangkok Bank gained Bt3.00 to Bt149 and Thai Farmers Bank put on Bt1.00 to Bt97.50.

HONG KONG dropped 1.5 per cent after heavy profit-taking undid 200 points of early gains, as overseas investors took a downbeat view about the outlook for the property market.

The Hang Seng index fell 215.42 to 14,439.71, after retreating from an early high of 14,856.77, in hefty turnover of HK$20.9bn.

Hongkong Telecom was also heavily sold, losing HK$1.65 to HK$17.35, as investors took profits following the news that Cable & Wireless had agreed to sell part of its stake to China Telecom.

Blue chip properties fell on fears that the government would announce measures to cool speculation in the local property market. Cheung Kong eased HK$1.25 to HK$75.00 and Sun Hung Kai Properties slipped HK$2.25 at HK$90.50.

Sentiment on red chips was hit by China's recent drive to curb speculation on China's stock markets.

SINGAPORE was also weaker, led down by the property sector, although the Straits Times Industrial index managed to bounce off an intra-day low of 2,004.82 to end at 2,014.78, down 15.43 on the day.

KARACHI picked up another 2.2 per cent, extending Monday's 2.7 per cent pre-budget rally and taking the KSE-100 index over the 1,600 point psychological barrier. The index ended 33.81 higher at 1,605.93 on speculative buying of blue chips ahead of Friday's budget.

SYDNEY came back from its long weekend in upbeat mood, catching up with Wall Street's fresh peaks and gaining additional impetus from interest rate speculation. The All Ordinaries index rose 28.0 to 2,628.9.

Banks bounced on lower bond yields and the central bank decision to halve the prime assets requirement for banks to 3 per cent. At the close, the banks sector was more than 2 per cent ahead.

Westpac put on 29 cents or 4 per cent to A$7.46 and ANZ 25 cents to A$9.338. NAB added 21 cents at A$18.98 and Commonwealth Bank 29 cents at A$14.50.

Among resource stocks, BHP gained 20 cents to A$18.92 and Rio Tinto 33 cents to A$21.18. Property leader Lend Lease had a good session, rising 26 cents to A$26.25.

Mexico City rises gently

Most Latin American centres made modest upward progress in what dealers described as light volumes.

MEXICO CITY rallied gently, turning Monday's modest setback into a morning of steady gains. Telmex put on 6 centavos to 15.65 pesos and there was a modest flurry among the leading banks.

Bancomer added 6 centavos to 3.43 pesos and Banacci put on 8 centavos to 18.88 pesos.

At midsession, the IPC index was up 13.41 at 4,139.71.

BUENOS AIRES returned from a three-day weekend in upbeat mood, thanks partly to Wall Street's continued gains, although by the close of the morning most early gains had been pared. At midsession, the Merval index was 0.73 ahead at 803.68.

SANTIAGO ended at midsession with the IPSA index up 0.49 at 131.25. Endesa added 0.1 per cent to 305.5 pesos after its Ralco dam got governmental approval.

CARACAS moved lower against the trend. The IBC index was off 58.49 at 7,245.18 at midsession.

South Africa finishes down

Shares in Johannesburg reversed a six day winning streak to leave the all-share index languishing at 7,265.5, down 31.0 after a session of moderate volume.

Industrials ended off 17.8 at 8,501.4 in spite of encouraging economic data in the shape of a lower than expected producer price index for April.

Newcomer First South African Food claimed most investor attention, roaring ahead of a strong premium in heavy first day volume. Floated at R2, the shares surged to R3.73 before closing at R3.55.

Golds dipped 4.2 to 1,177.1 as the bullion price stayed soft. Vaal Reefs lost 75 cents to R270.75.

FT/S&P ACTUARIES WORLD INDICES

The *FT/S&P Actuaries World Indices* are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 9 1997								FRIDAY JUNE 6 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	232.05	0.2	210.52	165.39	206.12	202.74	0.0	3.80	231.53	210.93	168.84	208.10	202.74	234.37	188.44	201.22
Austria (24)	196.87	0.8	178.60	140.31	174.86	174.79	-0.4	1.90	195.41	178.03	142.50	175.64	175.57	200.52	174.70	193.83
Belgium (26)	255.44	2.2	231.73	182.05	226.89	222.09	1.1	3.22	249.86	227.63	182.21	224.58	219.73	255.44	206.70	208.95
Brazil (30)	271.06	0.6	245.90	193.18	240.76	535.31	0.6	1.35	269.59	245.55	196.55	242.26	532.09	271.06	162.65	164.86
Canada (112)	208.14	-0.5	188.82	148.34	184.87	208.97	-0.3	1.87	209.18	190.58	152.54	188.02	209.67	209.45	154.12	162.61
Denmark (32)	391.53	2.3	355.20	279.05	347.77	346.43	1.1	1.46	382.58	348.55	278.99	343.86	342.51	391.53	293.76	294.13
Finland (28)	276.13	2.4	250.51	196.80	245.27	298.01	1.5	1.53	269.57	245.59	196.58	242.30	293.63	279.84	186.67	192.28
France (91)	222.38	-0.1	201.74	158.49	197.52	201.41	-1.1	2.82	222.59	202.79	162.32	200.07	203.74	232.34	186.94	194.32
Germany (59)	214.92	0.5	194.97	153.17	190.90	190.90	-0.7	1.48	213.79	194.77	155.90	192.16	192.16	216.90	168.28	169.19
Hong Kong (66)	521.54	0.0	473.13	371.70	463.24	518.49	0.0	2.91	521.65	475.25	380.41	468.89	518.61	528.86	407.56	436.43
Indonesia (27)	239.79	-0.6	217.54	170.90	212.99	357.41	-0.6	1.60	241.13	219.68	175.84	216.74	359.53	-	-	-
Ireland (16)	349.84	1.7	317.37	249.33	310.73	326.13	-0.1	2.99	344.11	313.50	250.94	309.30	326.32	350.96	270.08	283.80
Italy (59)	87.96	-0.1	79.80	62.69	78.13	110.84	-1.0	2.27	88.04	80.21	64.20	79.14	111.99	96.32	73.26	81.29
Japan (485)	136.47	1.9	123.81	97.26	121.22	97.26	-0.4	0.81	133.87	121.96	97.62	120.33	97.62	158.25	107.67	152.97
Malaysia (107)	538.33	0.1	488.37	383.67	478.16	521.04	0.2	1.32	537.73	489.89	392.13	483.33	520.08	660.85	510.10	555.80
Mexico (27)	1471.38	-0.5	1334.82	1048.66	1306.91	12845.69	-0.6	1.17	1478.22	1346.73	1077.97	1328.67	12920.76	1479.47	1110.35	1260.63
Netherland (19)	385.12	1.7	349.38	274.46	342.08	337.88	0.5	2.30	378.69	345.01	276.16	340.38	336.12	385.12	279.88	295.88
New Zealand (14)	91.40	0.0	82.92	65.14	81.19	70.28	-0.3	4.09	91.38	83.25	66.64	82.14	70.53	95.60	76.14	76.14
Norway (41)	319.14	1.9	289.52	227.45	283.47	308.13	1.1	1.99	313.29	285.42	228.46	281.60	304.79	321.23	246.04	250.62
Philippines (22)	166.28	0.7	150.85	118.51	147.69	218.58	0.6	0.85	165.17	150.48	120.45	148.46	217.22	-	-	-
Singapore (42)	394.63	0.3	358.00	281.25	350.52	258.09	-0.4	1.17	393.34	358.35	286.84	353.55	259.05	446.01	360.08	421.69
South Africa (44)	362.05	-0.1	328.45	258.03	321.58	356.16	0.3	2.45	362.37	330.13	264.25	325.71	355.10	370.12	301.49	360.23
Spain (35)	254.45	-0.4	230.84	181.35	226.01	278.84	-1.5	2.34	255.40	232.68	186.25	229.56	282.97	262.42	171.91	176.47
Sweden (49)	458.13	0.6	415.61	326.51	406.92	525.85	0.1	1.98	455.42	414.90	332.11	409.34	525.22	467.61	334.35	354.47
Switzerland (35)	301.09	1.7	273.14	214.59	267.43	268.35	0.8	1.25	296.09	269.76	215.92	266.14	266.30	301.09	230.41	230.41
Thailand (43)	60.52	-1.8	54.90	43.13	53.76	57.43	0.0	5.44	61.63	56.15	44.94	55.39	57.45	175.13	59.76	175.11
United Kingdom (212)	301.47	1.2	273.49	214.86	267.77	273.49	0.8	3.85	297.79	271.30	217.16	267.66	271.30	303.16	229.63	231.82
USA (650)	349.50	0.6	317.06	249.09	310.43	349.50	0.6	1.76	347.58	316.66	253.46	312.41	347.58	349.50	254.79	274.34
Americas (819)	319.80	0.5	290.12	227.93	284.06	269.39	0.5	1.75	318.23	289.92	232.06	286.03	269.04	319.80	233.09	250.46
Europe (726)	264.04	1.0	239.54	188.18	234.53	244.26	0.2	2.61	261.49	238.23	190.69	235.04	243.87	264.79	204.71	208.17
Nordic (150)	397.12	1.3	360.27	283.03	352.73	392.71	0.6	1.83	392.17	357.28	285.98	352.49	390.45	401.56	291.45	302.12
Pacific Basin (862)	154.68	1.5	140.33	110.25	137.40	111.64	-0.3	1.27	152.42	138.86	111.15	137.00	111.95	170.85	127.18	166.16
Euro-Pacific (1606)	200.33	1.2	181.73	142.77	177.93	161.67	0.0	2.00	197.94	180.33	144.34	177.91	161.73	200.33	173.55	183.68
North America (762)	340.83	0.5	309.20	242.91	302.74	340.20	0.5	1.76	339.13	308.96	247.30	304.82	338.47	340.83	248.65	267.42
Europe Ex. UK (514)	237.87	0.8	215.79	169.53	211.28	222.81	-0.2	2.02	235.81	214.93	172.04	212.05	223.26	238.96	185.65	190.16
Pacific Ex. Japan (397)	312.46	0.1	283.46	222.69	277.53	273.14	0.0	2.74	312.23	284.46	227.69	280.64	273.21	320.65	268.97	289.09
World Ex. US (1821)	203.76	1.1	184.85	145.22	180.98	168.22	0.0	1.99	201.56	183.63	146.99	181.17	168.29	203.76	176.94	184.91
World Ex. UK (2259)	245.13	0.8	222.38	174.71	217.73	214.83	0.2	1.69	243.19	221.56	177.34	218.59	214.48	245.13	199.58	210.74
World Ex. Japan (1986)	308.45	0.6	279.83	219.84	273.98	298.04	0.4	2.10	306.56	279.29	223.56	275.55	296.99	308.45	233.10	245.55
The World Index (2471)	249.98	0.8	226.78	178.16	222.04	220.25	0.2	1.88	247.90	225.85	180.78	222.82	219.74	249.98	202.32	212.67

Latest prices were unavailable for this edition. Markets closed 9/6/97: Australia and Hong Kong.

FT telecoms

FINANCIAL TIMES REVIEW OF THE TELECOMMUNICATIONS INDUSTRY

JUNE 1997

Rival telecoms groups are re-forming and jockeying for position as the deadline for full competition in Europe draws closer. **Alan Cane** reports on recent developments

Shake-ups and reshuffles as operators get ready for the fray

The doubts and uncertainties are revealing themselves in unexpected changes in strategy and position as Europe's telecommunications industry approaches full liberalisation.

The barriers which have protected most of the continent's telecoms groups from competition for more than a century will be demolished on January 1, 1998, less than six months from now.

Operators have been preparing for the fray for some years, forming strategic alliances, securing joint ventures and pursuing mergers. The past few months, however, have seen some dramatic realignments as the full consequences of open competition sinks in.

Germany, Europe's largest telecoms market, worth some DM60bn annually, experienced some of the biggest shake-ups as potential competitors for Deutsche Telekom, the newly privatised national operator, assessed the risks and opportunities.

Today, there are three principal rival groupings – Mannesmann Arcor, owned by Deutsche Bahn, the German railway operator and a consortium led by Mannesmann, o.tel.o, a joint venture between two large industrial conglomerates, Veba and RWE, and Viag Interkom, an alliance of the industrial group Viag with British Telecommunications.

RWE, however, had earlier in the year been expected to join the Viag consortium. Its defection to Veba, which had an alliance with Cable and Wireless, was followed a few months later by the UK company pulling out of the partnership altogether. Mr Richard Brown, C&W chief executive, said the potential rewards did not justify the commercial risks.

Equally dramatic was the decision of Telefónica, Spain's privatised national carrier, to abandon Unisource, a European alliance it shared with KPN, the Netherlands operator, PTT Switzerland and Telia of Sweden, in favour of Concert, the global alliance of BT and MCI of the US.

The move was surprising because BT and Telefónica had hitherto been competitors in Spain. The new grouping, however, which will involve a small exchange of equity between the Spanish and UK operators, will have world leadership among Spanish-speaking peoples. A first stage in the alliance is the establishment of a joint venture between Telefónica Internacional (Tisa) and MCI to create a pan-American fibre-optic network to provide customers with voice, data and Internet services.

Europe's decision to end its telecoms monopolies was driven by a belief that protected national operators would prove no match for aggressive rivals from overseas. Telecoms costs in countries where markets are closed, moreover, are higher than in open markets, placing an extra burden on a nation's industries. Using similar arguments, the World Trade Organisation earlier this year secured a pact which should see most telecoms markets opened by 2000.

The result of markets opening is that operators will be forced to defend their home markets, where they will inevitably lose market share as competition bites, while expanding abroad to attempt to maintain revenues and profitability.

Most ~~will not~~ find it easy, however. Mr Carlos Winzer of Moody's Investors Service, the credit research organisation, argues that competition will not be fierce: "Over the next 10 years we expect that competition in the EU telecoms market will gradually cause existing providers (carriers) to lose on average about 25 per cent market share in the most profitable segments."

He also suggests: "Despite privatisation, companies will continue to enjoy significant implicit government support in the near future through regulation. We think that in the near-term, there will be limited effective deregulation."

In other words, incoming competitors will have the odds stacked against them. Customers are understandably reluctant to risk anything as sensitive as their link with the outside world with an unknown quality, while the incumbent operator will own both a comprehensive network and the critical "local loop" – the final connection between the exchange and the home or office.

And they may find a regulatory environment that has not been designed to encourage competition. France has established an independenent regulatory authority and agreed interconnection prices with France Telecom. Germany has a framework law in place for regulation and has agreed its first interconnection agreement – with WorldCom, a US operator. But Mr Wolfgang Boetsch, Germany's minister of posts and telecoms, has to combat allegations that he will look after Deutsche Telekom's interests before those of its competitors.

Previously sleepy and bureaucratic operators such as DT, moreover, are showing unexpected verve as the crucial date approaches. Mr Ron Sommer, Deutche Telekom's energetic chief executive, noting the new respect for the company among would-be competitors, said: "They found a Deutche Telekom they did not expect."

Mobile communications, where competition has been allowed across most of Europe for some years, is likely to see most growth in the future.

According to BZW Research: "The only issue on which all commentators are agreed is that the market for mobile communications will expand dramatically over the next decade. It estimates some 13m subscribers in the UK by 2000, 15m in both Germany and Italy and 11m in France. According to CIT Research, one in four west Europeans will have a mobile phone by 2001.

The downside is that most of the new subscribers will be lower-spending residential customers rather than business users. "Many operators will find the going tough over the next decade," says Mr Rob Ollerenshaw, director of market analysis at CIT. "Collectively, they are having to invest billions in their networks and operations to cope with the demand for mobile phones. But revenues will remain almost stagnant from 2000 onwards." The European industry, moreover, has tended to concentrate on the expensive mobile phone sector at the expense of cheaper, equally effective options.

Fears have been raised, however, that Europe's mobile telecoms industry could fail to benefit from a multi-million-dollar expansion in radio paging, unless competition opens up in technology and services. A recent study, sponsored by a group of European telecoms operators including BT Mobile, France Telecom Radiomessagerie and Philips Consumer Communications, argues that the European paging market is seriously underdeveloped compared with North America or the Asia Pacific region.

It says that penetration (the number of pagers per 100 citizens) in Europe, is only 1.5 per cent, compared with 15.8 per cent in the US and 30 per cent in countries such as Singapore.

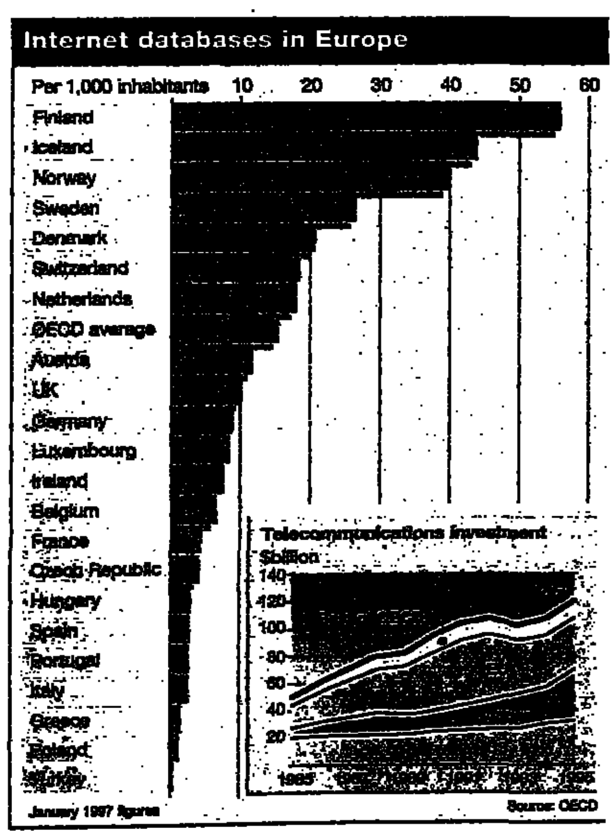
The reasons Europe is lagging behind are chiefly historical. Paging in the US was introduced much earlier than cellular telephony and was marketed by stand-alone operators whose livelihood depended on the core business. For European telecoms operators, paging was a secondary activity.

The study*, carried out by the Paris-based consultancy Eutelis, says, however, that after several years of stagnant growth, new tariffing policies such as "calling party pays", which did away with monthly rental and subscriptions has breathed new life into the market in some European countries including France, the UK, Germany and the Netherlands.

The study concludes that increased competition, technological innovation and regulatory support would ensure European citizens would benefit from low-cost, tailor-made paging services.

**The Future of Paging in Europe*, Eutelis, Rue Bénard 26, 75014 Paris, France.

Internet databases in Europe



January 1997 figures

Source: OECD

IN THIS SURVEY

PROFILE: Guido Rossi, chairman of Stet • By Paul Betts in Milan

Troubleshooter was parachuted in

Rossi's brief was to accelerate the telecoms privatisation process. He has wasted little time and has made remarkable progress despite complicated obstacles

Rossi in Italy is like being called Smith in Britain or Dupont in France. And Mr Guido Rossi, the chairman of Stet, Italy's state controlled telecoms group which is set to be privatised later this year, wants "lots of Rossis", to own shares in his company.

The privatisation of Stet has been described as the most ambitious flotation so far planned by the Italian government. It has also been the slowest and most controversial even though the process now finally seems to be entering its final stage. Last month, the Italian political parties finally approved in the Senate a controversial broadcasting bill that has now cleared the way for the constitution of a new telecoms and broadcasting authority to regulate the industry. Without this body, the government could not go ahead with the sell-off.

There are other problems. Government institutions, for example, are also arguing between themselves over responsibility for the losses accumulated by an advertising distribution company called MMP which was recently put into liquidation to accelerate the telecoms privatisation programme.

MMP was controlled by Stet's telephone directory subsidiary Seat which was spun off last year and is also about to be privatised. To avoid further delays, the issue of MMP's losses has now gone to arbitration.

Mr Rossi himself was parachuted in by the government at the beginning of the year as chairman of Stet to speed up the telecoms privatisation process. He has wasted little time and, in the circumstances, has made remarkable progress considering all the Byzantine obstacles he has had to face.

A law professor and graduate of Harvard Law School, Mr Rossi, 66, had already built up a reputation as a troubleshooter in Italian business circles. A former chairman of Consob, the Italian stockmarket watchdog, he was called in four years ago to put Ferruzzi-Montedison back on its feet when the Italian chemicals and agribusiness group was facing virtual collapse.

As Italian businessmen go, Mr Rossi is pretty unconventional. For a start he is a self-made man – his father was a porter in a Milan building – and a maverick of sorts. He has long preached the virtues of a free and transparent market, championed the introduction of rigorous corporate governance well before they started becoming fashionable in Italy, and was for a time a senator sitting as an independent member of the former Communist party in the Italian Upper House. He is also a keen football supporter (his team is Inter Milan) and his advice has been sought by some clubs considering floating themselves on the stock market.

Rossi: preaches the virtues of a free and transparent market

His priority has been to merge Stet, the state-controlled telecoms holding, with its main fixed-line operating company, Telecom Italia, as a first step towards privatisation. This has just been completed and in so doing Mr Rossi has already managed to reduce the government's controlling stake in the telephone group to below 50 per cent.

The state originally controlled 61 per cent of the Stet holding company which in turn owned 64 per cent of Telecom Italia. By combining the two, the state's stake in the merged group has now fallen to 44.7 per cent.

Although Stet absorbed Telecom Italia through a share swap, the new company has retained the Telecom Italia name because it was felt more appropriate because it echoed other large European telecoms groups such as British Telecom, France Telecom, or Deutsche Telekom.

To overcome political objections that the government was, with this move, actually privatising Stet by the back door, a golden share has been introduced giving the government a veto on important decisions such as mergers, acquisitions or disposals, as well as on the choice of core shareholders.

In the past, Mr Rossi has been an outspoken critic of the use of golden shares in privatisations, but in this particular case he adopted a pragmatic approach to avoid a further dispute which might cause additional complications for the Stet flotation.

Together with merging Stet with its main operating company, Telecom Italia, Mr Rossi's other priority ahead of privatisation has been to seek to strengthen the Italian group's international operations. He has made it clear he is keen for Stet to forge a strategic alliance with one of the leading international telecoms groups and talks are advanced with AT&T of the US. Already, Stet has linked up with AT&T to bid for new business in Brazil.

Stet is also eyeing opportunities in the Spanish market and has recently joined a consortium headed by Endesa, the dominant power group in Spain, and Union Fenosa, Spain's third-largest domestic electricity company, to bid for Retevisión, soon to become Spain's second-largest telecom operator after Telefónica.

In a further deal to spread its international wings, Stet won in April the competition to acquire a 25 per cent stake in Mobilkom Austria, the cellular telephone subsidiary of the Austrian post and telecoms monopoly also heading for privatisation.

Stet paid Sch8.4 bn for its stake to help expand the activities of its fast-growing and successful mobile telephone subsidiary, Telecom Italia Mobile (TIM), which has become Europe's largest mobile operator with a market capitalisation of L39,000bn, an 88 per cent share of the domestic market, and more than 6m subscribers.

Indeed, TIM could offer Mr Rossi and the Italian Treasury a stop-gap solution to the problems of Stet's privatisation should the autumn timetable for the flotation slip once again. Stet's three-year plan – outlined in May, when the company also reported a 29 per cent rise in 1996 consolidated net group profits of L3,160bn on sales of L40,500bn – does not foresee the sale of its controlling stake in TIM. But Mr Rossi and the Treasury may consider such a move in the event that the privatisation continues to be blocked by political difficulties. The sale of Stet's cellular "crown jewel" would help resolve the Treasury's financing needs.

But this is likely to be done in the last resort. There are strong industrial and strategic arguments for Stet retaining its cellular phone subsidiary in the same way as the company is seeking to develop, in its longer term plan, new multi-media activities with the state broadcasting network RAI.

However, the three-year plan suggests that Stet may shed its Sirti telecoms network engineering subsidiary while encouraging Siemens to take greater control in the Italtel telecoms equipment manufacturing joint venture. At present, Italtel is jointly held by the German group and Stet.

Such moves all reflect Stet's efforts to concentrate on its core businesses and the new evolutions in the international telecoms market.

Even though Mr Rossi appears to have overcome all the main hurdles – especially the issue of setting up an authority to regulate the Italian telecoms and broadcasting industries – that risked undermining his privatisation timetable, he could face other problems: not so much because of some new Italian political imbroglio but because of the strong possibility that Germany may decide to sell a second tranche of Deutsche Telekom this year in an attempt to resolve its own budgetary problems.

This could create a clash on the markets and complicate the Italian flotation and the expectations of all those Rossis ready to invest in Mr Rossi's privatised telecoms company.

INTERVIEW: Chris Gent, Vodafone CEO • By Jola Shillingford

Sharpening up its distribution and branding strategies

Vodafone is doing well: 1996-97 pre-tax profits are up 13.5 per cent and overseas investments are profitable as a whole for the first time

Gent: 'We need to change the way we promote ourselves'

Vodafone, the UK mobile operator, is sharpening up its distribution strategy and branding under Mr Chris Gent, the company's chief executive since January.

"There'll be a big announcement in July, but our brands will come down to two, maybe one," says Mr Gent. Currently, the company has 12 brand names, having added service providers Peoplesphone, Talkland and Astec to its other distribution outlets.

Vodafone is also considering selling its products through retailers such as Tesco, W.H. Smith or Boots. Department stores and supermarket chains such as Carrefour are huge sellers of mobiles in France, says Mr Gent.

The company has hired a new manager to make its distribution more focused: Mr Peter Bamford joins the company on June 16. He was until recently a main board director at W.H. Smith and has also worked at Kingfisher and Tesco.

"Once we've narrowed the brands, we need to change the way we promote ourselves, adds Mr Gent. We'll be doing more local radio and print, not just television adverts.

"We'll also be using cricket sponsorship to get our message across. The company will be sponsoring English cricket (Mr Gent is a big cricket fan) for four years; men's, women's and even children's teams.

Although he is new to his current post, Mr Gent has already made a big contribution. He joined Vodafone in 1985, and was managing director at the age of 31. Previously, he was a director of UK computer company ICL, now owned by Fujitsu.

As UK managing director, one of Mr Gent's jobs was to support new overseas mobile phone ventures in which Vodafone had stakes. Mr Julian Horn-Smith, Vodafone Group International's head, would sign them up, he says. Then he would hand them over to the UK team.

"We'd send some managers over, help them out with advice, and try to duplicate the kind of company culture we have here," says Mr Gent. "Then, when they stopped phoning us, and started coming up with ideas we wished we'd thought of ourselves, we handed them back to Julian."

Mr Gent will not have time for that now. Earlier this month he stepped down from the board of the Netherlands operation. On June 3, the company issued its first set of results with Mr Gent at the helm. He took over from Sir Gerry Whent, who was so popular with the City that analysts held a dinner for him when he retired.

Sir Gerry is a hard act to follow, but Mr Gent is well regarded by analysts. He comes across as relaxed and unassuming.

Vodafone is doing well, with 1996-97 pre-tax profits up 13.5 per cent and overseas investments profitable as a whole for the first time. UK subscriber levels exceed 2m.

However, the company faces a number of challenges. UK growth in subscribers is fairly flat, largely due to "churn" among customers migrating from analogue to digital networks. Mr Gent hopes to change this by improving distribution and by simplifying pricing.

He thinks there is scope for a leisure tariff offering low rates and some free off-peak calls. Some improvements have been made to Vodafone's pre-paid card for analogue users, designed for people with a poor credit history, or those who prefer to pay in advance. The card can be bought at post offices and from mobile phone service providers.

But Mr Gent insists there is scope for growth, especially in the mass market. Sweden has nearly 30 per cent penetration of mobile phones among its population; Australia has 25 per cent. He believes UK take-up will grow to 35 per cent.

Another challenge is Oftel's ambition to reduce charges for incoming calls to mobiles. Oftel wants to get the price down to about 20 pence. Vodafone currently makes 18 pence a minute on these calls, with BT making 12 pence.

Vodafone is hoping to avoid further regulation by getting BT to charge at its standard call rate of about 5 pence, and reducing its own charge to 15 pence over two years (Vodafone originally wanted to phase the reduction over four years). This would give the consumer an incoming call charge of 20 pence.

Overseas, Vodafone's investments are prospering, although there is room for improvement in Germany, where it has a minority holding in E-Plus. Removal of subsidies on phone handsets in Germany, coupled with poor communication with dealers and service providers, depressed sales.

There has been a change of marketing manager and a change of strategy with which Bell South, the other minority investor in E-Plus, is in full agreement, says Mr Gent. Sales in Germany have already started to pick up.

Vodafone's overseas strategy is to increase its stakes in the countries in which it already has a presence rather than to bid for licences which involve competing with an established operator. Earlier this financial year, it increased its presence in Greece (Panafon) and France (SFR) and Mr Gent said at the results meeting that the company was "very likely" to increase its stake in SFR.

The company's investment in South Africa is also paying dividends. Vodafone's partly-owned operation now accounts for 25 per cent of all telephone traffic in the country, says Mr Gent. And 80,000 pre-paid cards for digital telephony have been bought – mainly by people in the townships who have no credit history.

However, Vodafone does not rule out making investments in other countries if a good opportunity comes along. "In service quality and customer support, we've got the edge, but we've got to tell people we've got it, and we've got to keep it," says Mr Gent.

Mr Gent says his only status symbol, if he has one, is a horse box. Unlike many of his colleagues at Vodafone, he has steered clear of owning or part-owning a racehorse. But all the women in his life – his wife and two daughters – have horses, hence the box. Driving it is a dubious pleasure. "It makes one feel like a lorry driver," he says.

Company milestones

December 1982:
Racal-Vodafone is awarded the first UK cellular radio licence.

January 1, 1985:
First mobile cellular call made by Racal-Vodafone and official launch of Vodafone's analogue network.

December 1991:
Vodafone opens the world's first digital GSM (Global System for Mobile) service.

October 1992:
Vodafone unveils UK consumer tariff. Cellnet came up with the idea, but Vodafone got it to market first.

July 1987:
Vodafone launches its UK paging network.

September 1991:
Vodafone demerges from Racal Electronics plc and is floated on the UK London Stock Exchange, changing its name from Racal Telecom to Vodafone Group.

June 1992:
First international roaming agreement with Telecom Finland.

August 1993:
Vodafone Group International set up to develop international business.

January 1997:
Chris Gent takes over from Sir Gerry Whent as chief executive.

BT: INTO THE FUTURE • By Alan Cane

Ambitious and focused

The merger with MCI and the formation of partnerships in Europe will boost BT's muscle into the next millennium

Sir Iain Vallance, British Telecommunications chairman, sets out the argument unambiguously:

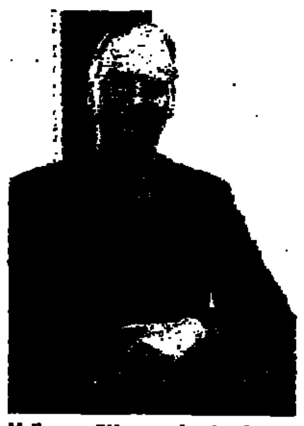
"Telecommunications operators are faced with a stark choice. Either they remain in their own country and try to defend what in the end may be indefensible. Or they get out into the global market and go for it. And we are absolutely determined to be the world's leading telecoms operator."

BT's local and international strategy for global success is, most analysts agree, ambitious and focused. Its proposed merger with MCI of the US, which now needs only the green light from the US regulatory authorities, would create Concert plc, a telecoms titan with strengths in Europe and the US, more than 170,000 staff and revenues in excess of $45bn.

According to the partners, the merger will result in: "a group which can provide seamless telecommunications services to multinational companies worldwide by serving all product markets including local, long-distance and international, mobile multimedia and internet services".

The European competition authorities approved the deal last month, asking only for minor concessions – the hiving-off of BT's audio and videoconferencing businesses, for example.

The US Federal Communications Commission and Department of Justice are expected to give their decisions by the end of the summer. They will be concerned to ensure that the deal encourages rather than stifles competition and that US companies have similar



Vallance: 'We are absolutely determined to be the world's leading telecoms operator'

opportunities to compete in the UK as Concert will have in the US. No serious problems are expected because the UK market is, if anything, more open than that in the US.

BT's strategy in Europe has been to form partnerships with companies such as the industrial group Viag in Germany, with the French utility Compagnie Générale des Eaux in France and with the Italian financial group Banca Nazionale del Lavoro. As a result it should be in a strong position to bid for licences to compete in these markets when they become available: "We recognise there is a tremendous premium to be gained by being the early mover. We need to be at the head of the queue for licences," says Mr Alfred Mockett, head of BT's international division.

At home, it continues to fight off competition from more than 70 rivals, including traditional telecoms companies such as AT&T of the US, cable television operators such as Telewest, new telecoms companies including Energis, the telecoms arm of the National Grid, and WorldCom and the new, integrated telephony-and-entertainment group, Cable & Wireless Communications.

It is losing customers to these smaller rivals at the rate of about 60,000 a month, but still dominates the UK market, returning pre-tax profits of £3.2bn on revenues of £14.9bn last year.

Cruickshank: the level of BT's expected investments overseas is causing him some concern

The consequences of the change of government in the UK for the country's largest telecoms company have yet to be made clear.

The company may be included in the new government's plan to levy a windfall tax on privatised utilities despite BT's protests that it is not a utility, has never made windfall profits and pays its full due in corporation tax. It has threatened to raise legal challenges if it is included.

The government's attitude to BT's 60 per cent stake in Cellnet, the country's second-largest mobile operator, has yet to be tested.

Securicor, which holds the remaining 40 per cent, wants to sell; BT is anxious to take the stake to develop its plans to become an integrated fixed-line and mobile operator but was turned down by the Conservative government.

It also remains to be seen what the government does about BT's ambitions to broadcast entertainment over its main network. No matter what deals were struck between BT and the Labour party before the election, it seems unlikely the operator will get its way before the turn of the century, so honouring the previous government's pledge to give cable operators a fair opportunity to build market share.

Not all analysts agree that BT's global strategy is well founded, however.

Mr Oliver Ehrenberg and Mr William Laurent of Flemings Research in London worry that the company will have to borrow more money than anticipated: "We wonder," they ask "whether BT's shareholders would want to see BT being involved in over 80 alliances, joint ventures and other investments worldwide. Some of these ventures may demand more substantial commitment from Concert than is assumed today. The returns on these investments may be further off in the future and lower than currently expected."

They go on: "The market has started to regard Concert as a growth stock, believing the companies' claim that double-digit revenue and earnings growth is ensured well into the next decade. It remains difficult for us to see where this growth should come from."

The level of BT's expected investments overseas – its deep pockets are expected to be called on to help MCI break into North America's lucrative local markets – is causing Mr Don Cruickshank, the UK Director of Telecommunications, some concern.

He warned earlier this year there was a small but real risk that the cost of BT's overseas ambitions might prejudice its ability to maintain and improve the quality of its UK network. Mr Cruickshank thinks that statutorily he would have to intervene if BT lets its standards slip in the UK.

A remaining area of weakness for BT is the Asia Pacific region where it has only a nominal presence.

A foothold in China was an important reason for last year's unsuccessful attempt at a merger with Cable and Wireless, the UK's second-largest telecoms company which has a majority stake in Hongkong Telecom.

BT's preferred partner in the East would be NTT, the huge Japanese domestic operator which will soon be freed to compete internationally. NTT, however, has shown no signs of linking with any of today's global alliances.

It has, however, agreed to a partnership with BT and two significant local companies in bidding for a telecoms licence in Singapore, tempting analysts to speculate that the relationship could deepen.

Announcing BT's proposed merger with MCI (left to right): Robert Brace, BT finance director; Gerry Taylor, MCI president and chief operating officer; and Sir Peter Bonfield, BT chief executive Ashley Ashwood

Britain

FT writers examine different aspects of the UK industry, including cable and mobile telephony

FT telecoms

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CELLULAR TELEPHONE MARKET • By Neil McCartney

Slowdown puts UK in second place

The British slump has been caused largely by the poor performance of Cellnet and Vodafone

The UK cellular telephone market is suffering something of a slowdown. In the first three months of this year the country's four cellular operators added a combined total of only 263,000 subscribers, the lowest first-quarter figure for three years. The total was 27 per cent fewer than the number recorded in the same period in 1996, and 42 per cent down on the figure for 1995.

The first-quarter figures continued the trend of 1996, when the four operators added a combined total of only 1.4m subscribers, 24 per cent fewer than the 1.89m recorded in 1995. The 1996 figure represented an annual growth rate of only 26 per cent, well down on the 54 per cent achieved in 1995 and less than half of last year's western European average of 57 per cent.

The effects of the slowdown were underlined in March when the UK finally lost its place as the largest cellular market in Europe – a position it had occupied since 1986 – being overtaken by Italy. By the beginning of April, the Italian figure had risen to 7,318,000 (12.1 per cent of the national population), just ahead of the UK total of 7,073,000 (11.9 per cent), according to information collected by Mobile Communications the Financial Times newsletter.

One of the most significant aspects of the UK slump is that it has been caused largely by the poor performance of Vodafone and Cellnet, the two oldest and largest operators, which had 2,867,000 and 2,692,000 subscribers respectively on April 1. Cellnet, which is owned by BT and Securicor, added only 12,000 subscribers in the first three months of 1997, its worst quarterly performance since the early days after its launch in 1985. Vodafone added only 67,000 new customers.

The two newer operators, Orange and One-2-One, are doing much better. These two accounted for about 70 per cent of subscriber growth in the first quarter, a reversal of last year's pattern when Cellnet and Vodafone were still dominant.

Orange, which is controlled by Hutchison Whampoa of Hong Kong, added about 109,000 subscribers in the first three months, much the same as in 1996, to take its total to about 894,000. One-2-One, which is owned by Cable & Wireless and US West, added about 75,000 subscribers, up from 35,000, to take its total to 620,000.

Mobile office: TV personality Noel Edmunds' Range Rover features a data-enabled laptop computer which allows users to send and receive e-mail and faxes or surf the internet. The vehicle is also equipped with video cameras for videoconferencing via Cellnet's GSM network

The overall level of market growth seems unlikely to rise over the next couple of years. CIT Research predicts that a total of 2.9m subscribers will be added over the two years to the end of 1998, to take the national total to 9.7m. In the following two years, it expects growth of only 2.5m, to take the total to 12.2m by the end of 2000.

The growth in subscriber revenues will be even slower, partly because of falling tariffs, and partly because of the changing profile of the markets. As the penetration of cellular telephones rises, all four operators will rely more and more heavily on the low-volume consumer market to achieve growth. CIT predicts that subscriber revenues will rise from £2.7bn in 1996 to £3.6bn in 1998 and £3.9bn in 2000. As a result, revenues per subscriber, which have already fallen from £645 in 1994 to £446 in 1996, will drop further to £402 in 1998 and £338 in 2000.

Vodafone and Cellnet are both still suffering from very high levels of churn – the rate at which the operator loses consumers from its existing subscriber base. In the first three months of this year, Cellnet actually succeeded in signing up 271,000 new customers. But over the same period it lost 259,000 of its existing users – 9.7 per cent of its subscriber base – to leave it little better off in net terms. Vodafone signed up 261,000 new customers but lost 193,000 (6.9 per cent). Both companies are expected to take action to try to reduce churn.

These operators' problems are being compounded by the need to put considerable resources into their efforts to transfer subscribers away from their original cellular networks, which use the analogue Tacs standard and were launched at the start of 1985, and onto their newer and more efficient digital networks, based on the GSM standard, which were launched in the early 1990s.

The need to migrate subscribers has become more urgent in the light of last year's government statement that the analogue networks must be closed by 2005 in order to release their frequencies for other uses.

The analogue networks have been in decline since the start of 1996, reflecting the fact that they are responsible for by far the bulk of the two operators' churn problems, with the result that they are effectively cancelling out much of the growth achieved on their digital networks.

But the analogue systems still account for just over half of these operators' subscribers. At the beginning of April, Vodafone had 1,389,000 subscribers on its Tacs network and 1,478,000 on its GSM system. The equivalent figures for Cellnet were 1,567,000 and 1,125,000.

Orange and One-2-One do not have this migration problem, because both companies have since launch been using digital networks based on the DCS-1800 technology – which is essentially the same as GSM but operates at higher frequencies.

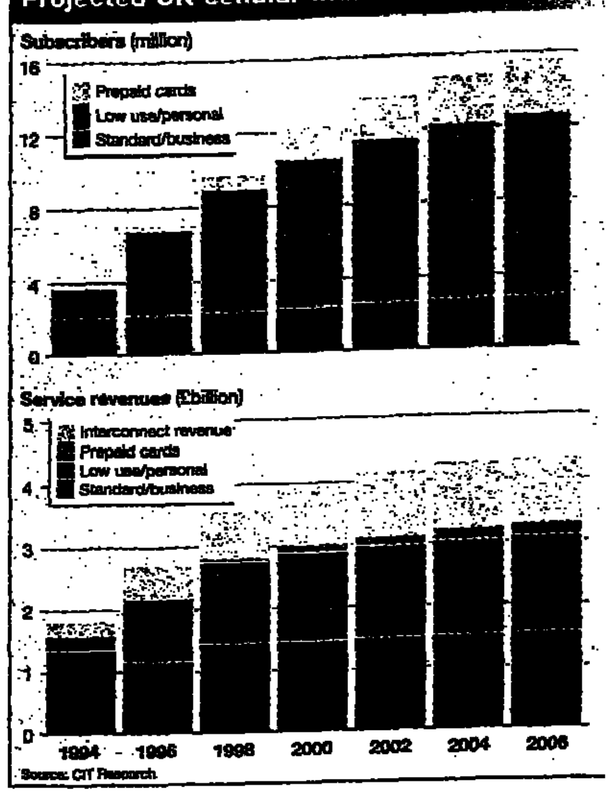
Orange, which has achieved impressive growth figures after a slow start when it launched in April 1994, enabling it to push through a successful flotation in March 1996, is pressing hard for the title of digital market leader. In the year to the end of March, it made 406,000 net connections to its digital network, slightly fewer than the Vodafone figure of 415,000 (much of which was canceled out in overall terms by analogue losses) but well ahead of the Cellnet figure of 303,000 and the One-to-One figure of 310,000.

The figure for One-2-One shows that it is also beginning to pick up speed as it overcomes the problems caused by its mistakes at the time of its launch in September 1993. Most importantly, it is seeing the benefit of last year's decision to invest heavily in network expansion in order to catch up with its rivals, all of which are already available to more than 90 per cent of the population.

By the start of this year its population coverage was up to 80 per cent, and it aims to reach 95 per cent by the end of December.

The writer is the editor of the FT newsletter Mobile Communications

Projected UK cellular market



Source: CIT Research

PROFILE Cable and Wireless Communications

Customer service and marketing come first

After guiding Cable & Wireless Communications to its £4.5bn listing in April, Mr Graham Wallace, chief executive, is set for a long haul.

He is under no illusions. "We have to improve our marketing and look after our customers better. While we are hoping to get that in place as quickly as possible, we do not see a step-change in sales. It will be a slow build-up."

His challenge is to convert the four constituent companies which make up UK's largest combined telecoms and entertainment provider into an effective force to challenge the dominance of British Telecommunications in the UK domestic telecoms market.

The merger of Mercury, the UK telecoms business of Cable and Wireless, with the cable companies Nynex CableComms, Bell Cablemedia and Videotron, won widespread support from industry observers when it was announced last November.

At a stroke, it created the largest cable company in a fragmented industry, with about 40 per cent of the market and 600,000 television subscribers. With the Mercury business, it also has more than 1m telecoms customers, making it the second-largest supplier after BT, which has some 20m domestic customers.

The merger was also seen as solving some of the fundamental problems of all the companies involved. For Cable and Wireless, which holds 52 per cent of CWC and has management control, the new business will greatly expand the market opportunities for Mercury.

While Mercury has made significant in-roads into the larger business market, it has struggled to make an impact in either the small business or residential areas. Once its network is built out in the next two years, CWC will give Mercury potential access to 6m homes and businesses, with particular strength in London and Manchester.

Mr Wallace says CWC will target small businesses in particular and also attempt to bolster its fledgling data management business.

For the cable companies, which have suffered from poor marketing and customer service while their networks have been built out, the merger will unite them under a common brand: Cable & Wireless. Together with the financial muscle of C&W, this should give its marketing a sharp boost.

Despite some recent improvements, "churn rates" – the level at which cable subscribers fail to renew – have remained worryingly high, particularly in television. Similarly, penetration rates remain well below industry targets.

Cable executives believe that television rates could be improved if they could choose which channels supplied by BSkyB, the satellite broadcaster, they sold to customers. BSkyB insists on them selling packages of channels it has chosen.

The creation of CWC should give the group, and the cable industry, some negotiating muscle in future negotiations with BSkyB. Mr Wallace, who is keen to see the "unbundling" of BSkyB's programmes, has already commissioned a trial – with the satellite group's approval – in Sunderland.

"If we can show flexibility on programming can improve revenues, I'm confident BSkyB will see it as a positive move," says Mr Wallace.

CWC's size should also give it more opportunity to differentiate itself from BSkyB's dish operations. Mr Wallace is coy about revealing any plans, which are at an early stage, but he is keen to emphasise the company's strength in being able to target particular regions, an option not open to satellite.

Regional sports activities would be an obvious target. CWC is also keen to launch its own movie channel, and talks are continuing with US studios.

Instrumental in the group's expansion plans is the launch of digital television. This had been set for later this year, but the decision by British Interactive Broadcasting, a coalition including BT and BSkyB, to delay the launch of a rival version, has prompted a re-think at CWC.

"We could not have Sky launching before us, but now they have delayed, it gives us the flexibility to get our own start right," says Mr Wallace.

He is also adamant that the the cable offering is superior in both price and quality to that offered by BIB. The greater capacity of cable's broadband network will enable the industry to offer about 200 channels, against the 30 planned by BIB, which must rely on BT's lower-capacity copper wires.

This greater capacity will give cable the scope to exploit interactive services. "Services which need lots of data will not go down a telephone line," says Mr Wallace.

"It may be okay for booking things, but not proper interactivity."

In addition, he says there will be only an incremental increase in cost for cable users – the set-top box being owned by the companies and the cost recovered over time. However, satellite subscribers must buy new equipment, not least the set-top receiver which is likely to cost about £200.

Taken together with the cable groups' discounted telephone service, Mr Wallace says: "We will be cheaper and offer a better service."

However, Mr Wallace's optimism is not shared by all observers. CWC shares have slipped 10 per cent since flotation at the end of April. The company attributes this to the stock overhang of the 2.5 per cent stake belonging to Jones Intercable, which it has indicated it wants to sell.

But critics point to the still stiff challenges the company faces. Not least is the tenacity of BT, which is unlikely to let the new company mount a sustained price-based campaign unchallenged.

Similarly, BSkyB, which has consistently shown superior marketing skills to cable, will remain a formidable competitor in the battle for digital viewers.

Mr Wallace is pragmatic. "We have a unique opportunity here. But having the best product in the world is useless unless we get our customer service and marketing right."

Christopher Price

THE CABLE OPERATORS • By Raymond Snoddy

Biting into BT's market

The UK cable industry is investing £6m a day in developing its networks and is more than half way through a £12bn investment programme

The latest figures published by the Independent Television Commission show that cable telephony is continuing to eat into the market of British Telecommunications. Every month for the past year, the cable companies have, on average, installed more than 73,000 cable telephone lines and have persuaded about 60,000 customers to leave the national PTT.

In the year to April 1, the number of cable telephony lines installed rose from 1.621m to 2.498m. Most are residential although cable now has nearly 300,000 business lines installed which earn a disproportionately high level of revenue.

Uniquely in Europe, there are now more cable telephony subscribers than cable television subscribers although increasingly the two products are marketed and sold as a single entity. There is little doubt that in terms of revenues it is cable telephony that is the more important of the products on offer.

Without the present revenues and future prospects for telephony, it is inconceivable that the UK cable industry would be investing in developing its networks at the rate of £6m a day – or be more than half way through a £12bn investment programme.

General Cable, a cable company with interests in west London, Birmingham and Yorkshire, said this month that of its £30.5m revenues in the first quarter of this year, 34 per cent had come from business telecoms, 38 per cent from residential telephony and only 28 per cent from cable television.

"Good progress is being made towards establishing General Telecom (General's business telecoms division) as a national telecommunications company," Sir Anthony Cleaver, chairman of General Cable said.

Merseyside has one of the fastest-growing cable networks in the UK

Cable telephony has continued to make progress mainly because of its price advantage.

Some of cable companies such as Nynex Cable Comms have been able to claim that their tariffs have been able to undercut, on average, the basic BT prices by 25 per cent.

BT has, however, been cutting its own prices and responding with a plethora of discount schemes such as offering price cuts on a customer's 10 most used numbers. BT has also got into trouble with Oftel, the regulator, over aggressive campaigns aimed at winning cable customers back.

There have been allegations of "dirty tricks" and mis-information and Oftel had to intervene following complaints that a number of ex-directory cable subscribers had been called by BT staff.

Consolidation in the cable industry last year has also intensified the thrust behind telephony in the UK. In March 1996, CableTel, one of the large cable companies which has all the franchise to cable Northern Ireland at an expected cost of £800m, bought NTL, the broadcast and communications services business. The acquisition created a national full service telecoms network.

In October there was a four-way merger between Mercury, the UK telecoms business of Cable and Wireless, and three of the largest cable groups – Nynex, Bell Cablemedia and Videotron – to create Cable & Wireless Communications. The new company, which accounts for about 40 per cent of the UK cable industry, should provide some of the stiffest competition BT has ever faced.

What Cable and Wireless, the UK's second-largest telecoms group, was buying was access to local cable networks. There is little doubt that C&WC's main emphasis will be on developing telecoms services to compete with BT as rapidly as possible.

Meanwhile, CableTel has been pioneering low-cost "entry packages" to try to increase the percentage of people subscribing to cable.

Instead of making people subscribe to a large package of cable channels, CableTel has been offering a telephone line and four channels of television, including Sky One, the general entertainment channel, and QVC, the home shopping channel, for a monthly fee of £7.95.

Subscribers can then choose whether or not they want other packages of channels such as a news package, a sports package and a movie package. CableTel claims the effect has been to increase penetration rates – the proportion who subscribe compared with those who could if they want to – to about 37 per cent.

This compares with the industry average which has been stuck for years at about 22 per cent.

Mr Barclay Knapp, chief executive of CableTel, claims to have "cracked the code" of how to sell cable although there is already litigation with the LIVE TV channel, angry that it has been left out of the first tier of programming.

The small, relatively inexpensive, packages of television channels bundled with a telephone line should help to continue to drive cable telephony forwards.

The arrival of number portability – whereby subscribers can retain their old number when they move to a cable telephone line – has also removed one barrier to the growth of cable telephony.

Although competition increases all the time it is not inconceivable that cable could double its number of lines to 5m and be a formidable competitor to BT. The next stage of cable development is already under way – the move to digital and the provision of a large array of interactive services – including fast access to the internet.

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OTHER LICENSED OPERATORS • By Joia Shillingford

Niches can be profitable

For the time being, there is still some scope for smaller businesses – but for how long?

There are more than 200 other licensed telecoms operators in Britain, but who are they are and how can they compete against BT?

There are six groups of telecoms operators (telcos) offering telephony within the UK: long-distance carriers, cable operators, regional operators, cellular operators (see report, Page 4), metropolitan area network operators, and fixed radio access companies.

The long-distance carriers include Energis, Racal and National Telecommunications Ltd (NTL), all of which also have licences to offer international services. NTL was formed from a merger of the IBA broadcasting network and cable operator International CableTel.

Larger than these in sales, and more numerous, are the companies with access to large cable networks. The biggest of these are: Cable & Wireless Communications (CWC), formed from Mercury and three cable TV operators, Nynex Cablecomms, Bell Cablemedia and Videotron; Telewest; and Comcast.

These offer low-cost local calls via their own cable networks and national calls over other people's. The exception is Cable & Wireless Communications, which has its own fixed-line national network.

The regional operators, such as Scottish Telecom and Kingston Communications (Hull) tend to make their money mainly from long-distance calls.

In big cities such as London, there are Metropolitan Area Networks, the best known of which are operated by Colt and MFS Communications. These provide a final fibre-optic connection to corporate customers in business areas. They have advanced networks capable of providing customers with high-tech services such as fast data communications.

Ionica, Atlantic Telecom and Radiotel are the most important fixed radio access (FRA) operators. BT and CWC are also expected to get radio licences in September. These operators provide wireless links into long-distance networks, bypassing BT's local-loop (local phone) network.

About half the other licensed operators (OLOs) offer international telephony from the UK. The main operators used to be BT, Mercury and a group of opportunistic resellers offering services such as callback (cheap international calls usually via US networks). But the picture was muddied somewhat when the Department of Trade and Industry (DTI) issued about 45 new international facilities-based services licences (IFBSs) in December last year.

Almost everyone who applied for an IFBS got one, and there are now four classes of international operator: BT and CWC; IFBS holders; International Simple Resale (ISR) licence holders; and callback operators.

The difference between an IFBS holder and a simple reseller is that an IFBS holder can buy an indefeasible right of use (IRU) to a circuit lasting, say, 25 years. This is much cheaper than the short-term leases on circuits that can be purchased by simple resellers. So, providing a telecoms company can generate enough traffic it makes sense to become an IFBS holder.

There is a wide variety of operators in the international call market ranging from small callback services operating from a spare room fo overseas telcos. Among the latter, AT&T, Telia and Worldcom are already pushing aggressively to expand their share.

Competing against large incumbent operators such as BT and CWC is not easy. This is mainly because of the economics of telecoms. Mr James Ross, telecoms analyst at ABN Amro Hoare Govett, says: "Telecoms is all about economies of scale. The bigger you are, the more cost-efficient you can be."

Colt, a Metropolitan Area Network, provides fibre-optic links

But there is still some scope for smaller operators, especially if they can identify niches where BT has not made the most of its dominant market position.

World Telecom is a big operator in the market for pre-paid cards, ACC Telecom has targeted the student market and has 20,000 student customers. RSL Com Europe has been chosen by the Association of British Travel Agents as its recommended telecoms supplier for travel agents.

Another niche which OLOs such as Energis have been quick to exploit is bandwidth-on-demand. Users can say: "On Thursday afternoons, and only then, I want extra ATM (Asynchronous Transfer Mode) capacity for 25 minutes."

A number of OLOs use new technologies to do things in a different way from BT. Fixed radio access operators are a case in point. Mr Ross says: "They can make money from a penetration level of 2.5 per cent of users in their coverage area, because their wireless technology is cheaper to set up than fixed phone lines.

"It is easy for an FRA to set up a thin, wide network of high-spending customers, who they can attract with lower prices. By contrast, fixed-line operators need a penetration level of 25 per cent before they can be profitable."

But a price-based strategy is not enough for OLOs to compete against larger rivals. "Customers are getting resistant to price-only strategies," says Mr Ross. "Improved marketing and customer service are becoming very important."

"People aren't that interested in the basic telephony service and are willing to pay far more than the lowest price if they feel they are getting a good quality of service."

For example, a big emphasis for CWC is customer service. It is spending millions on ICMS – the Integrated Customer Management System developed by IBM for Telecom New Zealand and already used at Nynex CableComms.

At Energis, in addition to low international call charges, customers get a print-out of their calling patterns every month.

If all else fails, OLOs get some protection from Oftel, the telecoms regulator. The best example of this is the international situation, where Oftel decided to introduce more competition, leading to the award of the IFBS licences.

Although the telecoms market is potentially very lucrative, most OLOs have found it quite a struggle to compete against BT. During the early 1990s, BT got its act together, improved its marketing, and put in schemes such as Friends and Family to retain customer loyalty.

"Middle-sized companies, like Mercury, in particular had a tendency to become the meat in the sandwich, with BT nibbling away at the top end of the market, and smaller niche players nibbling away at the bottom," says Mr Ross.

This could change. Medium-sized companies are being revitalised. Energis and CWC have been strengthened by new management. CWC is bigger than when it was just Mercury and is therefore less exposed to the 'meat in the sandwich' problem. So in the next few years, the smaller niche operators and BT will probably find the going a bit more difficult.

At present, the market is buoyant. ABN Amro Hoare Govett expects the larger UK operators to increase earnings at a compound rate of 9-13 per cent a year. Many OLOs are growing faster than this because they are taking market share from BT, which is losing two percentage points of market share a year, according to analysts.

But in the longer term, it is unlikely that the UK market will be able to sustain the number of operators around today. Not all the companies with IFBS licences are using them, and of those that are, many will have been bought or gone out of business in the next 10 years.

Mr Ross believes that "like the oil industry's so-called 'seven sisters', in 20 years' time, there will be five or six telecoms companies dominating the world market, and all will be present in some way in the UK."

The next big area of competition for telcos (and broadcasters) will be digital TV. Battle lines are already being drawn by the bigger companies – BT, CWC, and NTL (a digital broadcasting licence bidder) – and by the cable TV companies.

EUROPEAN CABLE UPDATE • By Raymond Snoddy

Companies prepare for open market

Technological advances and a European directive have stimulated competition

The UK has been virtually alone in Europe in pioneering the development of cable telephony, a phenomenon that began as early as 1990. The other country which went for early deregulation of telecoms was Sweden.

But now that is starting to change. All over continental Europe cable companies, with various degrees of enthusiasm and equally varying speeds, are preparing to compete on interactive services and voice telephony.

Apart from the possibilities offered by rapid technological change, the companies have been stimulated by the European directive fully opening up the market for voice and data telecoms from 1998.

The pattern of change will be very different, however, in individual European countries.

In France, there seems to be a sharp division of opinion among cable operators about how attractive voice telephony will be as a business opportunity.

Lyonnaise Cable, the second-largest French cable operator, is enthusiastic about cable telephony and related interactive services such as Internet connections – a business it calls "local loop multimedia." The company is already at work on local telephony trials and is looking for a partner for the full introduction of telecoms services.

France's other leading cable operator, Compagnie Genérale des Eaux, which has suggested cutting back its cable interests, is sceptical about telephony.

There are a number of barriers to the introduction of cable telephony in France, notably the fact that France Telecom owns 70 per cent of French cable networks and leases them to private operators. It is hardly surprising that the networks were not built with telecoms in mind.

A telephone service using cable is expected to start on the Annecy cable network later this year.

The power of the established telephone company will also be a huge factor in Germany where Deutsche Telekom is by far the largest cable company – indeed the world's largest cable company – with 16.67m homes connected by the end of 1996.

Deutsche Telekom, which does not directly operate all the systems it owns, has been upgrading its networks to provide digital transmissions. As a result, as many as 150 digital programme channels will be broadcast over the networks which in the past transmitted about 30 analogue channels.

But Deutsche Telekom can hardly be expected to compete against itself in telecoms. Some critics to argue that Deutsche Telekom's cable interests should be separated from the main company if effective cable telephony is ever to be established in Germany.

The same issues arise in the Netherlands where KPN is both the telecoms company and a cable operator.

Dutch cable operators have been holding both commercial and technical trials to test the market for Internet delivery, telephony and near-video-on-demand.

Late last year, leading cable operators, including KPN, promised that within three years 2m Dutch households will be able to have access to the internet via cable, although CAI Westland is the only cable company providing such a service at the moment.

The first licences for competing telecoms services were issued last year and voice telephony will formally become a liberalised service at the beginning of July.

A great deal of work has already been carried out to modernise the Netherlands cable network and a number of the large cable groups are expected to launch voice telephony and enhanced internet services in the second half of this year.

Even non-European Union countries such as Israel seem to be following a similar timetable. The Israeli Ministry of Communication recently approved experimental telephony on cable networks. Telecoms and telephone services will be opened up to competition from the beginning of 1999.

Full competition may take a little longer in Ireland. The Irish government received EU approval for Telecom Eireann's strategic alliance with European partners KPN of Holland and Telia of Sweden. There was also EU approval for a request by for a derogation until the year 2000 to protect residential voice telephony from open competition.

Swiss cable companies do not seem interested in competing with their national telephone company. Rediffusion, the large Swiss cable company emphasised recently it intended to stick to what it does best – providing television services.

At the same time as moving towards the introduction of cable telephony services, the cable companies of Europe have been co-operating on the introduction of digital cable television. A technical group brought together by the European Cable Communications Association has decided on a common standard for the introduction of digital cable. A common decoder, which should reduce both cost and unnecessary duplication, has been agreed by the big operators such as Deutsche Telekom. More than 1m of the black decoder boxes are expected to be ordered over the next 18 months.

FRANCE • By David Owen in Paris

The key to credibility

The new regulatory authority is proof that the French government wants competition to take root quickly

France is not known for being at the forefront of liberalisation in any market. But the country has scored high marks for the way it is preparing for the freeing up of European telecoms markets from 1998.

France	
% penetration of population (end 1996)	
Fixed lines	[illegible]
Cellular	4.3%
Wide area paging	[illegible]
Source: CIT Research	

For one thing, the government has presided over the creation of an independent non-ministerial agency – the Autorité de Régulation des Télécommunications (ART) – that has shared regulatory control of the telecoms sector with the Ministry of Telecommunications since January 1 this year.

According to Mr François Fillon – telecoms minister in the centre-right administration of Mr Alain Juppé, prime minister, that was in place prior to France's recent general election – the very fact such a body has been established should be interpreted as an indication of the strength of that government's desire to ensure that effective competition takes root quickly.

"You know there are not many regulatory authorities in France," he says. "It is really something that slightly offends our administrative tradition.

"I wanted there to be a regulatory authority because I considered it was the key to the credibility of the opening of the market to competition vis a vis other countries. That was an extremely difficult fight in this country. We don't like independent authorities. We think it is up to the state to look after regulation. We think that is its role."

Although general regulatory powers – particularly for the formal granting of licences for public networks and voice telephone service providers – continue to rest with the ministry, ART has been given extensive jurisdiction over market and competition conditions, together with a first-year operating budget of just over FFr70m.

In the run-up to full liberalisation, for example, ART is responsible inter alia for processing licence applications, allocating numbers and frequencies, intervening in disputes over competition conditions and settling disputes over interconnection and facility sharing.

It is also in the authority's remit to approve the interconnection price list and standard offering proposed by "public network operators with significant market power" – in effect, France Telecom, the traditional state-owned monopoly operator.

The authority's independence has been underpinned by the system of appointing members to the five-member governing body, or "college", charged with establishing broad policy lines and adopting decisions and opinions on issues under ART's jurisdiction. Crucially, no member is eligible for re-appointment, nor can their six-year term of office be revoked. Three of the members are appointed by presidential decree, with the two others chosen by the respective chairmen of the French Senate and National Assembly.

These rules did not prevent eyebrows being raised last October when it emerged that Mr Jean-Michel Hubert, 57, a former top official at the City of Paris who worked closely with President Jacques Chirac when he was the city's mayor between 1977 and 1995, was set to be named ART chairman.

But the early decisions taken under Mr Hubert's chairmanship are generally recognised to have been scrupulously fair and not to have favoured the vested interest represented by the government's ownership of France Telecom.

The authority recently considered the vital question of the standard interconnection charges to be paid to France Telecom by new market entrants for connecting their fragmented networks into its national network. The ART's ruling illustrates the point because the charges have sparked little complaint from the established operator's future competitors.

Ms Patricia de Suzzoni, deputy managing director of telecoms for Lyonnaise Câble, a Lyonnaise des Eaux subsidiary recently granted a licence to offer a full range of telecoms services in the Annecy region of eastern France, describes the charges as "low enough to start with". She adds: "We expect them to come down in subsequent years."

Plans to enable customers to access a variety of long-distance operators without having to dial extra digits are also widely thought to be encouraging to new market entrants. The proposed system will permit a consumer's choice of long-distance operator to be determined, on a call-by-call basis, by the first digit in new 10-digit telephone numbers introduced last year.

One area in which the government's preparations for liberalisation have gone less smoothly is its plan to sell a minority stake in France Telecom for between FFr30bn and FFr50bn in one of the country's biggest privatisations. The preparations had to be postponed in April following Mr Chirac's decision to call a snap parliamentary election.

With Mr Lionel Jospin's Socialist party opposed to the sale, the move had the effect of jeopardising the whole operation. The Socialist stance prompted a strongly-worded pre-election warning from Mr Fillon to the effect that leaving France Telecom as a solely state-owned entity would risk rapidly calling into question the French operator's international agreements with Sprint of the US and Deutsche Telekom.

In most respects, the operator is thought to be well prepared for life in a more competitive environment, being rated highly by analysts on efficiency measures such as lines per employee and labour efficiency. Analysts also comment on the group's high penetration and fully digitalised network, which they say suggests that future expenditure can be geared towards expanding service ranges and increasing line usage.

Competition is already fully entrenched in the country's fast-growing mobile phone sector, with France Telecom pitted against the respective telecoms arms of Générale des Eaux, the diversified utilities company, and Bouygues, the construction group.

Cegetel, the Générale des Eaux subsidiary, is expected to emerge as the main domestic rival to France Telecom across a wider range of telecoms services. Recently completed agreements fixed the respective shareholdings in the company at 44 per cent Générale des Eaux, 26 per cent British Telecommunications, 15 per cent Mannesmann of Germany and 15 per cent SBC of the US, formerly SouthWestern Bell.

Europe

FT writers report on the progress of individual western European countries as they prepare for market liberalisation

GERMANY • By Ralph Atkins in Bonn

New competitors get ready for a long haul

Germany's march towards telecoms liberalisation will not be smooth or hasty – but it is inevitable

No matter how strong the conservative tradition of German business and no matter how dominant the position of Deutsche Telekom – Europe's largest telecommunications group – the country's large and fast-growing telecoms market cannot escape Europe's trend towards liberalisation.

Germany	
% penetration of population (end 1996)	
Fixed lines	[illegible]
Cellular	7.2%
Wide area paging	[illegible]
Source: CIT Research	*end 1995

From next January – scarcely a year after its partial privatisation in November 1996 – Deutsche Telekom will face challenges from a range of well-financed, determined competitors able, under Germany's 1996 telecoms act, to compete fully in public voice telephone services. Among those backing Germany's new telecoms companies are some of the country's biggest industrial groups, including industrial and power conglomerates such as Veba and Mannesmann in Düsseldorf, RWE in Essen, and Munich-based Viag.

The transformation of the German market may take some time, however. Deutsche Telekom is fighting its corner. Mr Ron Sommer, chairman, says: "We will not make things easy for our competitors and we will fight with all our might for every single customer."

Under Mr Sommer, Deutsche Telekom has cut staff and sought to correct its reputation for poor customer service. Lucrative, high-spending customers in particular have been targeted with a "VIP service". Prices have been cut.

There are also concerns among the new generation of telecoms companies that Germany's proposed regulatory system will fail to create a level playing field – at least in the short term.

A proposed new supervisory body has yet to come into operation and, until the end of this year, the government – which still owns 74 per cent of Deutsche Telekom – will remain the industry's regulator. There are fears of a politically-biased structure, too eager to defend Deutsche Telekom's role as a national champion.

Some companies which planned grand ventures have retreated in the face of such obstacles and the past year has been dominated almost as much by talk of changes in alliances as of preparations for next January.

Thyssen, the industrial conglomerate, has scaled back its ambitions noticeably. The UK's Cable & Wireless pulled out of an alliance between RWE and Veba.

But even if January 1 1998 does not bring an immediate revolution, the remaining new competitors are prepared for a long haul. Viag, for example, has drawn up plans with British Telecommunications for a joint venture general telephone business that will invest DM8.5bn over the next 10 years and is not expected to break even until 2001. The Veba and RWE venture – named o.tel.o – plans to invest DM7bn in a customer-orientated service that is forecast to have revenues of up to DM9bn in 2005.

Meanwhile, Deutsche Bahn, the German railway operator, has teamed up with a consortium led by Mannesmann and including AT&T, Unisource and Air Touch, to create Mannesmann Arcor. The new company is building a telecoms system using lines along Deutsche Bahn railway track.

The rivals to Deutsche Telekom have a number of advantages that point to the long-run erosion of the former state monopoly's hegemony.

First, they have financial strength thanks to their parent companies' cash-generating interests in the energy sector. They can also drawn on experience in running large infrastructure networks and billing systems. And on their side is accumulated customer dissatisfaction with Deutsche Telekom's performance during its monopoly days – even if accusations that Germans pay considerably more for their telephone calls than in other countries are fiercely denied by the group.

German customers are becoming used to competition in telecoms. The mobile telephone market has been liberalised since 1990 and there are already four competing networks, with a fifth to start in 1998. Only two of the networks are controlled by Deutsche Telekom.

Elsewhere, in another sign of the changing times, ACC Telecom, the UK-based subsidiary of ACC Corp, a US telecoms operator, claimed recently to have become the first "switchless reseller" of Deutsche Telekom's voice services. It has the right to buy capacity from Deutsche Telekom at wholesale rates and sell it on to its own customers – typically small and medium sized businesses in Germany – at a discount to standard Deutsche Telekom prices.

Germany's mobile telephone market has been liberalised since 1990. Opel offers an "OnStar" communications and information service to drivers via a mobile phone which is linked to a global positioning system in the vehicle. When drivers contact a special call centre, the vehicle's position is pinpointed precisely

Moreover, Germany's relatively late embrace of across-the-board liberalisation of land-based networks means the new rivals to Deutsche Telekom can import experienced managers and technicians to boost their chances of success and can avoid some of the mistakes made by those challenging dominant groups in other countries.

Unlike Mercury in the UK, for example, the new German companies are looking to offer a range of services to business and private clients. That will allow economies of scale and prevent over-dependence on short-term niche opportunities.

As elsewhere in Europe, a significant hitch may prove to be "interconnection" agreements – the arrangements necessary to integrate rival networks. Ill-tempered arguments have erupted in public in the past few months over Deutsche Telekom's negotiating stance in talks over deals which are vital if the new rivals are to use Deutsche Telekom's so-called "last mile" connections into the homes and businesses of would-be clients.

The federal post and telecoms ministry has been called in to referee. Rivals say Deutsche Telekom is exploiting unfairly its dominant market position. But Mr Sommer insists: "We do not plan to subsidise our competitors".

Nevertheless, the pressure towards liberalisation seems unstoppable. If regulators in Germany fail to halt any abuse by Deutsche Telekom of its dominant position – in interconnection negotiations, or otherwise – its rivals have recourse to competition authorities in Europe or elsewhere.

The impetus for liberalisation, after all, has largely come from European Union directives. ACC was helped securing its deal with Deutsche Telekom by regulators' insistence there should exist opportunities to provide basic switched voice resale.

At the same time, the investment spent on building networks will, over a number of years, reduce reliance on Deutsche Telekom to access customers. For example, Viag Interkom – the Viag/BT joint venture – is looking to exploit technology which allows the linking of fixed and mobile telephone networks.

The timescale envisaged before such investments mature suggest Germany's march towards telecoms liberalisation will not be smoothe or hasty. But the opening up to competition of Germany's telecoms market – forecast to be worth DM100bn by the turn of the century – is inevitable.

IRELAND • By John Murray Brown in Dublin

Open market gets closer

Liberalisation represents a potent challenge for Telecom Eireann

On July 1, another brick in the edifice of Ireland's state-dominated telecoms industry will be removed when private operators will be free to offer non-voice ISDN (integrated services digital network) trunk services without having to lease lines from Telecom Eireann, the state company.

Ireland	
% penetration of population (end 1996)	
Fixed lines	[illegible]
Cellular	7.4%
Wide area paging	[illegible]
Source: CIT Research	*March 1996

This is the latest step towards liberalising the tiny Irish market, which must be fully open to competition including voice telephony from the year 2000, in line with a timetable finalised with the European Commission in December.

For Esat Telecom, the private operator which has an estimated 15 per cent of trunk traffic, the new regime will mean it can provide customers with its own microwave, fibre-optic trunk lines, without having to rent lease lines from TE. It will also avoid the cost of connecting the signal from its own switch to TE's lease lines.

Mr Denis O'Brien, Esat founder and chief executive, estimates the change will result in a 25 per cent improvement in margins.

"The telecoms business is all about economies of scale. If you put in a switch, you need the vast amounts of telephone minutes. The barriers to entry are enormous," he says.

Liberalisation represents a more potent challenge for TE, which sold 20 per cent of its shares to a consortium of KPN, the Dutch telecoms company, and Telia of Sweden.

A report last year by Forfás, the policy and advisory board for industrial development in Ireland, noted that voice telephony prices were among the highest in the European Union, and compared with those in Italy – "reknowned in the industry for its high priced service." However it predicted that prices could fall to 43 per cent of their 1995 levels by 2010, as a result of competition. Industry observers believe TE will lose 30-40 per cent of its market with the advent of liberalisation.

TE made losses until 1988 – its debt was still matching its turnover in 1992. Its borrowings at May 1996 stood at I£703m, down I£159m on the previous year. Last year, the company achieved a 44 per cent increase in pre-tax profits of I£163m on sales of I£1.1bn which was up 12 per cent on the previous year.

The government has undertaken to allocate I£220m from the sales proceeds to sort out the company's balance sheet, and help it finance overdue pension obligations. But with international tariffs coming down, TE will need to increase its business volumes if it wants to cut its cost base.

The competition will be watching how well TE's link-up performs. The so-called strategic alliance valued TE at I£915m. The consortium has a option to take a further 15 per cent in three years time.

Morgan Stanley, the US bankers who lead-managed the deal, said: "The structure aligns the strategic and financial interests of the Irish state, the company and KPN-Telia."

By introducing a profit-sharing formula, it provides an incentive for the company to maximise the value of its option, and puts a discreet constraint on government regulation.

Mr Alfie Kane, the TE chief executive, says the alliance will "help us to do faster and better what we know we need to do".

Liberalisation of the market is already attracting other operators. British Telecommunications is in discussions with Ireland's Electricity Supply Board about a possible link-up to make use of ESB's rights of way to install a fibre optic network. On the mobile side, the government is due to invite tenders for the third phone contract by the end of the year – Eircell, TE's subsidiary, and Esat have the existing licenses.

Overseeing all the changes is a newly-appointed industry regulator – Ms Etain Doyle. As a former official of the European Commission, her knowledge of Brussels' inner workings is seen as vital.

In January, the new TE board met for the first time, with three newcomers – two from KPN and one from Telia added to the line-up. Mr Kane says he is likely to draw on further management injections from his partners, with perhaps as many as 15 top management positions already identified, as the company moves to consolidate the changes.

For all that, overall control of TE will remain with the government. Even on fundamental issues such as a possible flotation, Mr Kane's hands are tied. "If you ask my personal opinion, it's quite likely there will be an IPO in three years' time, as part of the exercise of the option. But it's important to remember it's the decision of the shareholder, the government," he says.

Much is being made of the potential bone of contention over the workers' demands for an employee share ownership scheme, envisaged as part of the alliance with KPN-Telia.

In the government's *Statement of Strategy* document published in February, it envisages that 5 per cent of TE's shares would be "made available" to the workers. However during the current election campaign, both Labour, with its strong links with the Communications Union, and the populist Fianna Fail party, have offered more generous terms.

Mr O'Brien suspects some in the government are using the issue as a "Trojan Horse" to delay the much-needed labour retrenchment. He also wonders ultimately just how "strategic" TE's alliance really is.

"I think some guy in Goldman Sachs will sooner or later wake up and begin to look at the break-up value of these companies," he says.

PORTUGAL • By Peter Wise in Lisbon

Share swap deal bears fruit

Portugal	
% penetration of population (end 1996)	
Fixed lines*	37.6%
Cellular	6.7%
Wide area paging	1.7%
Source: CIT Research	*end 1995

Portugal now has one of most technologically developed systems in Europe

Telephone calls between Portugal and Spain will cease to be classified as international next year and become regional connections instead. That means one small digit less for callers to dial, but a giant symbolic leap for the integration of the two Iberian economies.

The change is the result of a share swap agreement between Portugal Telecom and Telefónica of Spain, part of a series of strategic alliances that the Portuguese operator has forged this year in preparation for telecoms liberalisation.

In February, the European Commission agreed to a Portuguese government proposal to bring forward the complete liberalisation of Portugal's telecoms market to 2000, two years after most other European Union countries and one year later than Spain. The EU has granted varying periods of exemption to Portugal, Spain, Greece, Ireland and Luxembourg from the January 1998 deadline for full liberalisation of voice telephony and telecoms infrastructure to help countries with less-developed systems catch up.

Establishing a place for the country in the global alliances that are reshaping the telecoms industry is a further step in Portugal's preparation for liberalisation, after a decade of heavy investment in modernising infrastructure and completion in 1995 of a big restructuring of the industry.

Over the past decade, Portugal Telecom, the monopoly fixed-line operator, has extensively upgraded the quality and doubled the size of its network. As a result, Portugal has one of most technologically developed telecoms systems in Europe.

A total of 80.4 per cent of local area networks are digital, compared with only 14 per cent in 1990. All the inter-city systems and almost all international lines have also been digitalised. Portugal has 38.5 telephone lines for every 100 inhabitants, slightly above the European average when weighted by gross domestic product per capita.

Later this year, a third tranche of Portugal Telecom is due to be sold in a global offering, reducing the state holding from 51 to 25 per cent. PT was created in 1994 by the merger of three regional operators. In 1995, Marconi, which handled intercontinental calls, was brought into the group through a share swap arrangement during the first phase of privatisation.

The offering, expected in September, will also cement Portugal Telecom's international alliances, both with Telefónica and with Concert, the global partnership between British Telecommunications and MCI of the US. The Spanish operator is to acquire 3.5 per cent of Portugal Telecom in the offering. BT will buy 1 per cent and MCI 0.5 per cent.

The government says that a further 5 per cent of the group could be reserved in this year's offer for other industry partners in addition to the holdings that will be kept aside for Telefónica, BT and MCI. Negotiations have been held with TeleDanmark, Telebrás of Brazil and other foreign operators.

Before choosing Concert as a strategic ally in April, Portugal Telecom spent almost a year negotiating with Concert, AT&T-Unisource, which includes the national operators of the Netherlands, Sweden and Switzerland, and GlobalOne, the group led by Deutsche Telekom. Mr João Cravinho, Portugal's planning minister, says Concert was selected as the best partner for developing Portugal's telecoms sector "in an environment of free enterprise and healthy competition".

BT and MCI, the second-largest US long-distance operator, are also the companies that best complement Portugal Telecom's international strategy, which is focused on Brazil and, to a lesser extent, Africa and south-east Asia, he says.

Portugal Telecom and Telebrás operate a joint venture called the the Aliança Atlâantica, a partnership that aims to develop business in Portuguese-speaking countries and other markets.

In addition to these strategic partnerships, Portugal is preparing for liberalisation by setting up a second national operator, ending Portugal Telecom's monopoly control of infrastructure and basic telephone services. The aim is partly to preempt moves by foreign operators into the Portuguese market.

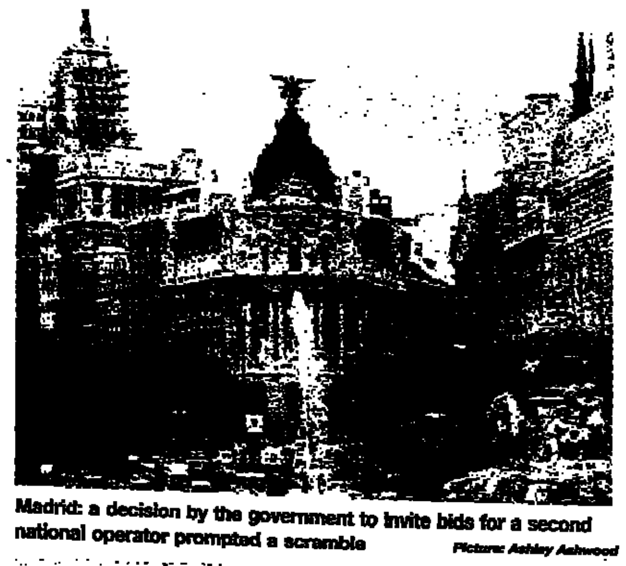
Electricidade de Portugal, the national power company, and Caminhos de Ferro Portugueses (CP), the state railway, will form the core of the new fixed-line operator. Other partners will include Transgás, Portugal's natural gas provider, and Brisa, a motorway operator. The state is to control a majority, but private-sector companies will be allowed to acquire minority holdings.

The move means a second big national telecoms operator will be in place when the Portuguese market is fully liberalised, making entry by a foreign group more difficult. EDP, CP and some of the other utilities investing in the new company already operate their own telecoms and related infrastructure, which can readily be adapted into a second fixed-line network, says Mr Cravinho. Their customer base – EDP has 4.7m clients – and distribution networks will also make it easier to penetrate the telecoms market and provide a solid foundation for competing with Portugal Telecom, he says.

Portugal has already allowed limited competition in cellular phone, data transmission and paging services. Bids will soon be invited for a third mobile telephone concession and selection will be completed before the end of 1997. All three operators will be required to use compatible technology to ensure that users can communicate easily between the different systems.

The two existing operators, Telecomunicações Móveis Nacionais (TMN), part of the Portugal Telecom group, and Telecel, controlled by AirTouch of the US, began operating in 1989 and 1992 respectively. Both use the Global System for Mobile communications (GSM) standard digital technology.

About 6.7 per cent of the Portuguese population are mobile telephone subscribers. Analysts forecast an increase to 15-20 per cent by 2000.



Madrid: a decision by the government to invite bids for a second national operator prompted a scramble *Picture: Ashley Ashwood*

SPAIN • By Tom Burns in Madrid

Telefonica's defection is still making waves

The battle to obtain Spain's second basic telephony licence may serve to further clarify the respective strengths of the industry's global alliances

Spain	
% penetration of population (end 1996)	
Fixed lines	39.0%
Cellular	7.7%
Wide area paging	0.8%
Source: CIT Research	

Telefónica's April decision to dump a partnership with Unisource, the alliance of smaller European operators that is linked to US giant AT&T, and to choose Concert, the venture formed by British Telecommunications and MCI of the US as its international strategic partner, is still creating shock waves.

The current contest to acquire Spain's second national operator and thus compete with Telefónica on its home ground is in itself a reflection of the turmoil that the domestic carrier created among global telecoms alliances when it joined forces with Concert.

The Spanish operator's surprise defection from Unisource came just a month after it had been fully privatised in a high profile international offering and scarcely a year after it had joined the Unisource venture which groups the national carriers of the Netherlands, Sweden and Switzerland.

Shortly after Telefónica's 180-degree strategic alliance switch, a decision by the Madrid government to invite bids for a second national operator prompted a scramble to enter Spain. Analysts believe the battle to obtain the second basic telephony licence in Spain – the government's decision is expected late this month – will serve to further clarify the respective strengths of the industry's global alliances.

The situation among the alliances is fluid because, by bringing Telefónica into its fold, Concert delivered at least two strong blows to rival cross-frontier tie-ups – AT&T with its Unisource links and Global One, the partnership of France Telecom, Deutsche Telekom and Sprint of the US.

Concert firstly obtained access to the fast-growing Latin American market where the Spanish group is well entrenched as the dominant foreign operator in the region through its international division Telefónica Internacional, Tisa. Telefónica's chief value to Unisource was its Latin American activities and for more than three years there had been on-off negotiations between Tisa and AT&T.

The BT and MCI venture consolidated its position in Europe by adding two national European carriers – Portugal Telecom and then Telefónica – to its alliance.

The initial tangible outcomes of Telefónica's new international strategy is the creation of Telefónica Panamericana MCI, a joint venture with MCI, and share-swap agreement between the Spanish carrier and Portugal Telecom. Both agreements are merely the foretaste of a redoubled drive by Telefónica in Latin America that aims to lift Tisa's contribution to group earnings from 17 per cent at present to close to 50 per cent by 2000.

The Panamericana venture will, under Telefónica management, create a fibre optic network capable of providing customers in North, South and Central America with integrated communication services.

Also in the pipeline are a partnership between Telefónica and MCI to build-up Avantel, the main competitor to Mexico's Telmex, and the planned merger of MCI's and Tisa's operation in Puerto Rico, with the aim of jointly developing services for Hispanics in the US.

The asset swap with Portugal Telecom, which followed the latter's own decision to link up with the Concert alliance, allows Telefónica to present joint proposals with the Portuguese carrier in the impending deregulation of Brazil's telecoms sector. Tisa, which acquired a key Brazilian beachhead at the end of last year when it gained control of CRT, the operator in Rio Grande do Sul, is anxious to expand further in Brazil and Portugal Telecom, which has established ventures with the state-controlled Telebras, is an ideal partner.

As Telefónica focuses on Latin America in conjunction with its new partners, other operators are looking at the 25 per cent stake that Telefónica now forgoes in Unisource and at its home Spanish market which is being thrown open to competition.

The Spanish carrier's Unisource slot could be filled by either Germany's Mannesmann or by Italy's Stet because the two telecoms groups have informal links with Unsource and AT&T.

Speculation to this effect has been fuelled by the separate bids that Mannesmann and Stet are preparing for Retevisón, Spain's future second fixed telephony operator. AT&T and Unisource could approach either Stet or Mannesman should one of the two obtain the Retevisión licence.

France Telecom and Sprint are also preparing a bid for Retevisión, and should they win the licence they are likely to be joined by Deutsche Telekom, their Global One partner. The French group's interest in Spain has been spurred by BT's successful bid last summer for the second operator licence in France.

The outcome of the three-cornered contest for Retevisión, which will begin to compete against Telefónica towards the end of the year, will be a key pointer to the respective strengths of the industry's global alliance because the Madrid government is selling what could prove to be a very profitable property.

Unlike France, Germany, Italy and the UK, where telecoms is a mature business, the Spanish market shows considerable room for growth. Domestic line penetration and usage are low when compared to European Union averages and the bulk of Telefónica's double-digit profits are earned from rising revenues generated in Spain.

Telefónica estimates that it will lose 10 per cent of its currently exclusive basic telephony market to a second operator by 2000 but that the growth of the business in Spain will comfortably compensate for such a loss. This forecast could be over-conservative for the government has set low inter-connection fees (the price that Retevisión will have to pay Telefónica for using its lines) in order to allow the second operator a competitive margin.

ITALY • By Paul Betts in Milan

Lots of talk but not much action

The problem is a combination of vested interests and political divisions over what will constitute probably the most important privatisation so far undertaken by the government

Many fine words have been spoken in Italy during the past months on the liberalisation and privatisation of the country's telecoms sector. But despite all the political endorsements for opening up the Italian telecoms market to competition, the process has continued to drag on – to the increasing frustration of large international telecoms groups now poised to invest heavily in Europe's fourth-largest telecoms market after Germany, the UK and France.

Sir Peter Bonfield, British Telecom's chief executive, is the latest to have vented openly these frustrations in the Italian press. He said the UK group was prepared to invest heavily in Italy, but was being obstructed by the delaying tactics of the Italian authorities to deregulate the market and implement the European Union's directives to liberalise telecoms.

British Telecom is part of the Albacom consortium which includes Banca Nazionale del Lavoro, the Mediaset media group of Mr Silvio Berlusconi, the former prime minister, and is expected to be joined soon by the Italian ENI oil and gas group.

Albacom is one of the new groups planning to eventually offer telecoms services in competition to the current domestic monopoly Telecom Italia, whose privatisation is due to take place later this year but which continues to be bogged down in political controversy.

France Telecom has also recently teamed up with the Olivetti-led Infostrada group, which also includes Bell Atlantic of the US, to offer similar services. And a third group, consisting of the State Enel electricity concern in partnership probably with Deutsche Telekom, is now considering entering the market. The Agnelli Fiat family's IFI and IFIL holding companies are also exploring the possibility of investing in this third group.

Even the liberalisation of the Italian cellular telephone market continues to be dogged by controversy. The country's second operator, Omnitel, controlled by the Olivetti information technology group, is complaining of delays in levelling the playing field. Interconnection charges for mobile operators, for example, are still among the highest in Europe and are likely to remain so even after an expected reduction of between 25 per cent and 40 per cent this summer.

However, the opening up of the mobile market has led to spectacular growth in cellular telephone use. Telecom Italia Mobile (TIM), the cellular phone company controlled by Telecom Italia, is now the biggest in Europe.

Demand for cellular services continues to expand, with Italians seemingly having an unsatiable appetite for mobile telephones. In the first quarter of this year, TIM signed up 547,000 new subscribers bringing its total to 6.25m Italian cellular subscribers. In the first quarter of 1996, it signed up 290,000 new subscribers.

TIM's domestic competitor, Omnitel, which only started operating in December 1995, has now signed up nearly 1m subscribers and expects to top its target of 1.5m subscribers by the end of this year. And both TIM and Omnitel have competed ferociously for new business by introducing a series of innovative mobile services ranging from credit card payment systems to provision of information of stock market prices and football results on cellular phones.

Ultimately, however, the full liberalisation of the Italian market hinges on the privatisation of Telecom Italia, the new company born at the end of April from the merger of the state-controlled Stet telecom holding and its main fixed line operating company – a group with annual sales of more than L40,000bn.

The government has committed itself to sell its stake in the new merged Telecom Italia group in the autumn. Recent approval by the Italian Senate on a controversial broadcasting bill now appears to have cleared the way for the constitution of a broadcasting and telecoms authority necessary for the privatisation of Telecom Italia. If the bill, as expected, passes through the Chamber of Deputies, the biggest obstacle to this autumn's privatisation of Telecom Italia will have been lifted.

The problem of telecoms deregulation and privatisation in Italy is the usual Italian combination of vested interests and political divisions over what will undoubtedly be the most important privatisation so far undertaken by the government. The "Olive Tree" centre-left administration of Mr Romano Prodi, the prime minister, is dependant for its majority in the House of Deputies on the extreme left Refounded Communist party of Mr Fausto Bertinotti. And Mr Bertinotti has opposed the government selling control of so-called strategic state industries.

In the case of telecoms, a compromise was reached by the introduction of a "golden share" in the new Telecom Italia merged group giving the government a veto on important decisions such as mergers and acquisitions. Until the Senate compromise last month on the government's broadcasting bill, the biggest hurdle had been the need to set up the new telecoms and broadcasting regulatory authority. Without such a body, Telecom-Italia could not be privatised and the fixed-line market liberalised.

For the past months, the governing coalition and the right-wing opposition parties led by Mr Silvio Berlusconi have been fighting over a broadcasting bill which would have implications for Mr Berlusconi's extensive television interests. The main provision of the bill would force Mr Berlusconi to eventually shift one of his three conventional television channels to satellite. And until a compromise was reached on the timing of the various provisions of the controversial bill, the prospects for forming the regulatory authority had remained in doubt.

While waiting for the the political controversy over the broadcasting bill to clear, Telecom Italia has been busy seeking international alliances to strengthen its international reach and competitiveness. In the past few months it has acquired a stake in the Austrian mobile telephone operator, joined the bidding for Spain's second fixed-line telephone operator, expanded in South America and, above all, has sought to forge a strategic alliance with AT&T, the big US telecoms group.

But the slow pace of the privatisation process has made Telecom Italia's international competitors suspicious of the the Italian authorities' apparent efforts to play for time to enable their national champion to position itself for the day when it will have to compete in an open domestic market. And for all the delaying tactics and procrastinations, the day of reckoning for the Italian telephone monopoly is now close.

Italy

% penetration of population (end 1996)	
Fixed lines	[illegible]
Cellular	11.2%
Wide area paging	[illegible]
Source: CIT Research	June 1996

Changing times: despite delaying tactics the day of reckoning for the Italian telephone monopoly is close Picture: Trevor Humphries

THE NORDIC COUNTRIES • By Hilary Barnes in Copenhagen

Where competition really works

Liberalisation has been accompanied by the development of stiff intra-Nordic competition, as well as increasing competition from outsiders

Outsiders often consider the Nordic countries as if they formed a single market, but in telecoms, as in many other respects, this is a mistake. The Nordics are firmly out of step when it comes to telecoms, although destined to arrive at the same point in 1998-99.

Sweden and Finland fully liberalised their telecoms regimes in 1993. Denmark intended to reach this stage in 1996, but after lengthy haggling over the details of the liberalised regime, full liberalisation will take place from July 1 this year.

Norway is moving more slowly and will follow the European Union timetable (although Norway, unlike Denmark, Finland and Sweden, is not a member of the EU, it is tied into the EU market by the European Economic Area Agreement).

The four countries are also out of step when it comes to corporate structures in the national telecoms markets.

The Danish government partially privatised the national monopoly, Tele Danmark, in 1994 with a big international share issue. The state retains control of 51 per cent of the capital in Tele Danmark. A further reduction in the state's holding is not yet a definite item on the government's agenda, but it has been pencilled in for consideration.

Sweden's Telia was converted from status as a state agency into a state-owned corporation in 1991, but privatisation remains a gleam in the eye of Mr Lars Berg, the chief executive. According to Telia's executives, Ms Ines Uusmann, the present communications minister, favours privatisation, but she has not yet been able to convince the rest of her cabinet colleagues.

Norway's Telenor has also been converted into a state-owned corporation. Mr Tormod Hermansen, chief executive, is impatient for privatisation and the access which this will give the company to tap the markets for equity capital, but the minority Labour party government has no immediate plans to heed his wishes. Norway faces a general election to the Storting in September this year, which will leave this ball in the incoming government's court. Finland is an exception to the situation as it has existed in the other Nordic countries and most European countries. Finland never had a national monopoly telephone company and in some ways the market was more like the US market than a typical European tele market.

In the 1930s, Finland had well over 800 telephone companies, most of them municipally-based, often customer co-operatives. The country still has 52 telephone companies, but the market is dominated by two main operators – the state-owned Telecom Finland and the Finnet Group, a consortium of regional phone companies (the biggest of which is the capital's phone company, Helsinki Telephone). These two are relatively even competitors in terms of market shares, and competition is fierce.

Telecom Finland is a subsidiary of the state's PT Finland – both post and telephones – which has not yet been privatised. Although Mr Pekka Vennamo, chief executive, believes that the group will be privatised, he has little idea when this will take place.

In both the fully-deregulated markets, as well as in Denmark and Norway, competition is fierce in cellular, in international calls, data transmission, corporate networks and leased circuits. It is primarily in traditional fixed-line national voice telephony that Tele Danmark and Telenor have, so far, retained their exclusive market rights.

The Nordics may be out of step in some ways, but not in all. The establishment in the early 1980s of the Nordic Mobile Telephone (NMT) network is a case in point. Cellular came to the Nordic countries before anywhere else, and they remain the world leaders in the application of mobile systems.

Penetration rates – mobile subscribers per capita – range from about 26 per cent in Denmark to more than 30 per cent in Sweden and Finland, and the Nordic telephone operators are convinced that the growth of the mobile market will continue, with penetration rates reaching 50-60 per cent within a few years.

Finland stands out, again, because the high penetration by mobile has been achieved without prices for handsets being subsidised by the operating companies (this kind of marketing is illegal in Finland); a lesson here perhaps for those who remain sceptical about the potential for mobile telephony. Liberalisation has been accompanied by the development of stiff intra-Nordic competition, as well as increasing competition from outsiders – and all the Nordic companies have interests outside the Nordic region, mainly in cellular networks, although Tele Danmark has a stake in Belgium's Belgacom and Telia in Ireland's national phone company. Telia regards the Nordic market as an extended home market. In Denmark this spring it obtained one of four new licences for DC1800 cellular systems, which it expects to have up and running in Copenhagen this year.

It has an interconnect agreement with Tele Danmark which has enabled it to snatch a significant share of the market for international traffic, and it is moving forward with plans to provide nationwide phone services for the Danish market, internet services, and pan-Nordic services.

Tele Danmark, Telenor and BT are striking back in Sweden with a jointly-owned company, Telenordia, that is building up services in competition with Telia which also faces competition from the Global One alliance – which has ambitions to become a significant operator in the Swedish market.

Telia also has ambitious plans for Finland, where last year it acquired 75 per cent of the shares in Telivo, which utilises the fibre cable infra-structure system established by IVO, the Finnish power utility. At the end of last year, Telivo had 8 per cent of the market for international calls and 4 per cent of domestic traffic. Telivo also has a licence to establish a DC1800 mobile system in Finland.

Telecom Finland's executives say they see Telia and Telivo as its toughest competitors in the long term, even if today it is the Finnet Group which offers the stiffest competition.

The Finnish groups are also present in the Swedish market, concentrating on corporate network services.

So far, Telia has survived competition in its domestic market quite well. It has maintained a 75 per cent share of international traffic, 90 per cent for national long-distance traffic, and claims more than 50 per cent of the market for GSM cellular. Competition in local calls has barely begun. Throughout the Nordic region, the technical side of the telephone business is advanced, although Denmark has yet to complete digitalisation.

A factor in the development of these markets is the absence, historically, of exclusive supply agreements with equipment manufacturers, which has kept the rival suppliers, including Sweden's Ericsson and Finland's Nokia, fine-tuned to competitive pressures.

Partly because of the role which Ericsson and Nokia have played in their respective domestic markets, it is Sweden and Finland which are showing the way, whether it comes to corporate networks, cellular, internet, tele-medicine, and every kind of value-added service. They are a clear confirmation of the theory that competition works.

Nordics

% penetration of population (end 1996)	
Fixed lines	[illegible]
Cellular	28.2%
Wide area paging	[illegible]
Source: CIT Research	*end 1995

Two faces of Stockholm: Sweden liberalised its telecoms regime in 1993 Pictures: Alan Harper and Tony Andrews

مكامن الاصل

The Dutch state railways are part of the Telfort joint venture with British Telecommunications *Picture: Lydia van der Meer*

THE NETHERLANDS • By Gordon Cramb

Modestly ahead of the pack

The cost of being a front runner has been a blurred regulatory environment

Netherlands	
% penetration of population (end-1996)	
Fixed lines	[illegible]
Cellular	6.8%
[illegible]	[illegible]
Source: CIT Research	

If the Dutch are set a European Union deadline, they often pride themselves on meeting it six months or so early. The country's market for basic fixed-line phone services will thus be opened to full competition from July 1.

Although they are only modestly ahead of the pack, being a front runner has required companies to enter the fray before Brussels clarified its requirements – and while national regulatory policy was still being determined.

It was not until the second half of May, to take one of the most contentious issues, that the European Commission confirmed that it would require number portability by 2000. Or put another way, that existing national telecoms utilities facing new competition could until that date stem the drift away of customers by ensuring that switching to another provider was encumbered by a change in phone number.

KPN, the Netherlands' partially privatised posts and telecoms company, says it will offer that facility for all customers from the beginning of 1999. This is still way too late, argue entrants to the sector such as Telfort, a joint venture between British Telecommunications and the Dutch state railways, and Enertel, a consortium grouping power and cable companies.

Corporate clients holding blocks of 1,000 or more numbers will be offered portability as early as this October, says KPN, while acknowledging that "those are the most interesting customers." This means it will throw tailor-made deals their way in an effort to ensure they stay loyal.

In the phased deregulation of the Fl 15bn-a-year market, larger volume business users have for a while been offered a choice of carrier for their international and data traffic. KPN, owner of the infrastructure through which such calls must still in part be routed, has developed a reputation for what the Dutch call a hard-necked approach.

Rivals seeking to syphon off some of that business allege that their newly-won customers are are being visited by KPN representatives soon after they defect. The sales force, they maintain, turns up armed with details of their individual call patterns drawn from its records, and presents a tailor-made package designed to lure them back.

This is said to have included offers such as a free upgrade of the customer's switchboard. Although KPN has long since lost its monopoly on hardware, the question for competitors remains whether it is cross-subsidising – funding such deals from profits on those activities which until July remain protected. A small stack of such complaints has already landed on the Brussels desk of Mr Karel Van Miert, competition commissioner.

Mrs Annemarie Jorritsma, who as Dutch transport minister is in charge of the sector, has meanwhile been deliberating on the other main cause of anguish: the level of interconnection tariffs for calls routed among competing services. Telfort in particular has become increasingly vexed at its inability to reach accord with KPN on how much these should be. After months of wrangling the two sides seemed this month still not to be able to agree even on a benchmark for what they were talking about.

But it is symptomatic of the blurred regulatory environment that Mrs Jorritsma was due to make her ruling on the issue only weeks before the official freeing of the basic telecoms sector. In the absence of an overall competition authority, a division within her ministry is meanwhile being hived off to form an industry regulator called Opta.

Until Opta's independence is established, the government remains not only regulator, and judge and jury of the first instance, but also a main shareholder in the telecoms sector. It owns a residual 45 per cent of KPN, a half share in Telfort through the NS railway operator, and stakes in several of the energy companies which control Enertel. Those two ventures were last autumn awarded licences to build national infrastructures costing perhaps Fl 1bn apiece, while a host of smaller enterprises have been granted rights to offer more specialised or regional services.

Telfort and Enertel have been concerned to protect their capital investment against operators which they see as seeking merely to skim the cream – and this has put them at times on the same side as KPN in the argument over network access.

For the consumer, nothing much will change on July 1. Few if any of the new services will yet be able to offer a choice across the domestic market. The main difference so far is in the tone and content of the literature being sent out by KPN, which is deluging customers with formulae such as per-second billing, call redirection, and a choice of subscriptions offering cheaper rates to frequent callers and a lower monthly standing charge to those who use their phone less often.

This is being echoed by more aggressive competition between the Netherlands' two GSM mobile services ahead of the auction of a new licence based on the DCS 1800 standard.

Libertel, owned by a group of investment institutions, has just launched a promotional campaign intended to convey its technical prowess now that it has filled in most black spots in its signal. Functions such as voice or text messaging are being advertised in an attempt to lure sign-ups away from the rival KPN service, behind which it already trails closely.

New providers of fixed line services start from a far weaker position. Carrier select, through which customers of one phone company may pick another to route a specific long-distance call, will require them to key in a four-digit code. The Dutch consumers' association says that real competition will not happen before number portability comes. And surveys suggest this holds true of business users too: most want a choice but fewer than a sixth would switch if it meant new letterheads and everything else that a change of phone number entails.

GREECE • By Kerin Hope in Athens

Competition deadline is set

Under pressure from the European Commission, Greece has undertaken to liberalise its telephone infrastructure by January 1, 2001

Greece	
% penetration of population (end 1996)	
Fixed lines*	[illegible]
Cellular	4.9%
Wide area paging	[illegible]
Source: CIT Research	*end 1995

It has been a rough ride so far for backers of telecoms liberalisation in Greece, but the going seems likely to become smoother. Political objections to the partial privatisation of OTE, the state operator, have been overcome and the Socialist government has at last worked out with the European Commission a timetable for opening up the Greek telecoms sector to competition.

OTE's privatisation resumes next week with the sale of another 12 per cent of its equity through a secondary offering on the Athens stock exchange, following the disposal of 8 per cent last year. No further sizeable offerings are expected, however, because the Socialists have set a 25 per cent ceiling for private ownership of Greek utilities.

The company says it will invest its share of proceeds both from the offering and from a rights issue due to take place immediately afterwards in speeding up digitalisation of the fixed-wire network. Greece was slow to invest in modernising telecoms until the early 1990s and services such as data transmission, satellite links and paging are still not available in many areas.

Under pressure from the Commission, Greece agreed last month to liberalise its telephone infrastructure by January 1, 2001 – just one year later than Portugal and Ireland. The compromise came after a hard-fought campaign by the government to delay full liberalisation until 2003 so that OTE could complete the upgrading of its domestic network before being exposed to the full force of international competition.

OTE managers say most of the network will be digitalised by 2001, enabling 80-85 per cent of calls to be time-charged. With revenues per line projected to increase by almost 40 per cent as a result of time-charging, OTE will be in a much stronger financial position to take on new entrants to the domestic market.

Plans for a second voice network which would use the fibre-optic cable network belonging to PPC, the state-controlled electricity utility, are still at an early stage, however. The strongest local contender for a second voice telephony licence to have emerged so far is Intracom, the Greek telecoms equipment manufacturer which would be likely to form an alliance first with an international operator.

The government is also committed in the next 12 months to liberalising satellite communications and cable television, to making leased circuits available at fair prices and to ensuring that Greece's weak and underfunded regulatory authority for telecoms can play an effective role as an independent watchdog.

The Commission has already launched legal proceedings against Greece for failing to implement EU telecoms directives in these areas.

Independent operators, such as internet service providers as well as trans-national corporations working in Greece, have complained in the past that the close ties between OTE's senior management, its influential trade unions and the governing Panhellenic Socialist Movement have encouraged abuse of the state operator's dominant position in the domestic market.

One glaring example has been cable television, for which the state operator was granted a monopoly two years ago in defiance of the EU directives. However, OTE has made no progress in setting up a cable television network.

Meanwhile, the public works ministry and some local authorities around Athens have been quietly preparing for deregulation by replacing unsightly television aerials with fibre-optic cable connections. In the absence of fresh legislation on cable television networks, householders have been told the changes are for environmental reasons.

The Union of Greek Shipowners' choice of OTE as its partner in setting up a specialised maritime telecoms network has also underlined the state operator's continuing grip on the domestic market. The UGS had made clear its intention to cut Piraeus-based shipping companies adrift from land-based communications by selecting an international operator to build a broadband data network for the shipping sector.

However, to the disappointment of international operators who saw the maritime telecoms project as a chance to gain a foothold in the Greek market, OTE was in February declared the winner of an international tender organised by the Union.

The UGS will take only a 20 per cent stake in Maritel, the Greek company beng set up to implement the project. OTE will have control with a 70 per cent shareholding, while Global One, the international telecoms alliance, and France's Alcatel will each take 5 per cent.

Greece's cellular market, by contrast, is fiercely competitive, with two private groups competing for subscribers in one of Europe's fastest-growing mobile markets. Panafon, controlled by the UK's Vodafone, claims a slightly larger market share than its rival Telestet, in which Telecom Italia teamed up with Nynex, the US operator. About 600,000 subscribers use the two GSM systems which cover most of mainland Greece and the islands.

Competition in mobile telephony is set to intensify with the planned launch in September of a third cellular network by Cosmote, the state operator's new mobile subsidiary in which Norway's Telenor holds a 30 per cent stake. Telenor will be responsible for setting up and managing a DCS1800 system designed for a mass market. Cosmote plans to focus at first on attracting subscribers in Athens and Thessaloniki, the biggest Greek cities, before extending coverage nationwide over the next three years.

OTE's mobile partnership with Telenor, also state-controlled, may open the way for forming a broader strategic alliance which would help speed up the Greek operator's transformation from state agency to commercial company and enable both partners to extend their international reach.

CALL CENTRES • By George Black

Combining the best of both worlds

Despite their advantages, the use of call centres is not growing as rapidly in Europe as in the US

Call centres are spreading rapidly because they can now combine telecoms and computer technology to help companies win customers and serve them better. The number of agents working in call centres worldwide will rise from 530,000 last year to 8.9m in 2002, the Ovum consultancy forecasts.

The US has more call centres than the rest of the world put together. Use of call centres is growing in Europe, but not as fast as in the US. This may be partly because the American public is more telephone-oriented, but in the UK at least the public has become much more willing to do business over the phone.

Britain is the most popular European location for call centres. Early deregulation of telecoms services and the consequent growth of competition helped the UK to establish this position.

Whether the vendor is a personal computer maker providing a helpdesk for users, a water company advising about drought measures or a financial services company answering account or policy queries, a call centre has become the preferred solution.

Call centres can cut the cost of employing staff across a number of sites as well as that of the field sales team. Customer service can be provided more cheaply if the operation is based in a less expensive area with lower wage rates. For this reason the north of England, Scotland and Ireland have become favoured locations.

First Direct, Midland's telephone banking arm, is building one of the UK's largest call centres at Hamilton, Scotland.

Some companies are starting to construct "virtual call centres", run by homeworker agents. This could cut costs still further, but it will pose formidable problems of communication and quality control, to which no solution is yet proven.

Customers are usually offered free or low-rate calls so that the cost of a long-distance call does not put them off. International centres allow customers to call a local number and transfer them to an overseas agent speaking their own language. The Netherlands is a popular site for international centres because of the country's reputation for multi-lingual skills.

Mackenzie: 'Companies should learn from their mistakes'

Calvert: 'A lot of money spent on tv advertising is wasted'

The advance of computer telephony integration (CTI) has enabled the call centre to replace the traditional service department. CTI links the phone to a computer which routes calls to the most appropriate agent, prompts the agent with caller data ("screen popping") and leads the agent through a script to produce answers to thousands of different questions. CTI applications software is becoming plentiful, although users will probably need professional help to install it.

Automated or "predictive" dialling, which connects agents to customers just as they answer, is being applied to cut call lengths and save time wasted on unsuccessful calls. And in the next few years, combined voice and data networks based on Asynchronous Transfer Mode (ATM) and Gigabit Ethernet switching protocols will make call centres better able to cope with large volumes of inquiries.

The market is very fragmented and the buyer may need to deal with several suppliers, who must be made to work closely together. Off-the-shelf products are usually to be preferred, but they may need tailoring. The biggest part of the effort and the cost is in systems integration. But the investment can be repaid in just a few months, says Ovum.

Surprisingly, however, only a minority of UK call centres use CTI systems and fewer still deploy them effectively. "The technology is available to do it, but it's hard to get right," says Mr Marcus Hickman, project manager at Henley Centre, the research organisation, which last year published a study of the subject called *Teleculture Futures*.

Customers are often displeased with the way their calls are handled, he says, mainly because the centres have not planned the operation carefully. Many have not properly applied software which tracks call patterns and plans staffing levels, or instituted work schedules which match demand fluctuations.

Companies should not expect to get the operation exactly right from the start but should be prepared to learn from their mistakes, says Mr David Mackenzie, a director of CTI software developer Royalblue Technologies.

Call centres could produce better results when the technology matures further and becomes better managed, says Ms Natalie Calvert, managing director of consultancy Calcom Associates.

Also, the interactive voice response (IVR) systems which are used to answer calls automatically by sorting them into streams are often very badly applied, she says. "A large amount of money spent on television advertising is wasted because the system set up to handle calls that flow from it does not work well."

Staffing is another problem; turnover at call centres is notoriously high. This is partly due to the stress of the job, forcing as many as 100 calls a day on to agents, and calls which are either repetitive or difficult or both.

Overall, the problems of the business are to be blamed more on poor management than on deficient technology, but both must be improved to sustain the rapid growth which analysts are forecasting.

BILLING SYSTEMS • By Christopher Thomas

The key to customer satisfaction

The CCB system plays a critical role in providing up-to-the-minute information about user accounts

The emergence of competition in telecoms markets around the world has stimulated telephone operators to focus on every aspect of their business.

Billing, once regarded as a necessary but mundane aspect of telephone company operation, has become a central business process, leading to greater customer satisfaction in the new competitive environment.

The introduction of competition in telecoms supply generally precipitates discounting and consequent price and profit erosion, both for the previous monopoly operator and any new competitor. These parties soon appreciate that continuing competition on price alone is unprofitable. The competitors move on towards competing on differentiated service packaging and customer satisfaction.

Central to tailoring services to individual groups of customers is tariff flexibility. And central to improving customer satisfaction is providing customer agents – who handle orders, inquiries and complaints from users over the telephone – with up-to-the-minute information about user accounts, including the cost of that user's most recent call.

The customer care and billing (CCB) system plays a critical role in achieving this goal.

Previous telco monopolies may have the diverse CCB functions – order processing, engineering works, telephone directory, billing, fault repair – on different computer systems.

Integrating these systems into one, where a customer service agent has a complete overview of a customer's account, should that customer phone in with a question, may involve years of systems integration work.

A new telephone operator can buy a complete software package which enables it to offer a complete and seamless service to its customers from day one.

There are now more than 50 such telco CCB packages available on the market. The packages are focused on different types and sizes of telco.

Some are designed for mobile telephone network operators, others for fixed-line telephone companies, others for cable television companies who may also offer telephony services.

More specialist packages focus on the pre-paid calling card telco market, or on service resellers, such as mobile service providers, who have no network but buy network capacity at wholesale rates.

Each sector of the market has very specific requirements – the cable television operator focuses on the residential address of the customer. Because many of these operators are "building out" their networks, the CCB system monitors network construction and releases for sales promotion those homes passed by the network on a weekly or daily basis.

Such CCB systems also monitor and control the "set-top box" provided to each customer, switching on and off services according to the requirements of individual customers.

It is becoming common for cable television operators to offer individual sporting events. A customer calling in to the operator to order such an event speaks with a customer agent who is able to activate that customer's set-top box and to simultaneously add a charge to his bill.

Intelecable from Cabledata and CableMaster from CBIS, among others, address this particular market.

A mobile telco has a different set of requirements. Telco CCB systems tailored to this market focus on the mobile handset or the smart card that activates it. Controlling the activation of, and sales privileges associated with, each card is of vital concern to the mobile telco because of the high incidence of mobile phone theft and fraud.

LHS of Germany with its BSCS product and SEMA's CABS 2000 target the mobile operator.

A wire-line telco has another specific set of requirements, for example the ability to consolidate the bills of multiple lines and apply volume discounts, this being required for big corporate accounts which may well have telephone service at a number of different geographic locations. Tieline from Amdocs addresses this market. Other fixed network solution providers are Ericsson Hewlett Packard and Sofrecom.

Increasingly, telco CCB software package suppliers aim to address the whole market with a single software product. The ICMS package from IBM is one example of such a product. ICMS, based on the billing system of New Zealand Telecom has been developed by IBM to meet the needs of diverse operator types. Others are CBP from Saville Systems and Arbor BP from Kenan Systems.

Technology can be further exploited by coupling the CCB system to an automated call centre. The customer calling in to speak to a telco customer service representative is identified by the network and communicated to the CCB system so that the system brings up on screen information about the customer for the service representative to scan prior to accepting the call. In reverse, the CCB system may prompt the automated call centre to call new customers or customers who have recently changed a service package, so that a representative can talk to the customer and assess their satisfaction with the service.

Another factor which is critical is the size of the operator. A new operator who expects to have no more than 200,000 customers in its first few years of trading may well be satisfied by a minicomputer-based CCB system such as that supplied by Computer Answers. After a few years, the operator may swap out this system to accommodate future growth. Typically, a new operator will change its CCB system after three or four years of operation.

The larger telcos with installed "legacy" systems have a very difficult problem in developing their CCB systems. Few "off-the-shelf" packages exist for these large telcos who may have 10m or 20m customers.

GTE and AMS provide solutions, but these must be tailored to the customers' needs. More often, the large telcos contract systems integrators such as Andersen and EDS to formulate bespoke solutions to their requirements, or develop their own systems in-house.

Future diverse requirements will emerge in the marketplace as telcos innovate new services and tailor packages to new groups of users. Such demands will require the continued evolution of supporting CCB systems.

The author is the Editor of the FT Customer Care and Billing Newsletter.

INTERNET TELEPHONY • By George Black

Telcoms face challenge from computers

Poor voice quality has curbed the widespread use of internet telephony – but this could be about to change

Internet telephony could start to pose a threat to telecoms operators worldwide within two years. The prospect represents not so much the convergence as the collision of technologies: computers may soon come to challenge telecoms. Internet telephony will allow users anywhere to talk between personal computers across the Internet.

A sound card in the PC captures the voice from a microphone and digitizes it, so that it can be transmitted as a data file. The receiving PC translates it back into sound and plays it through a loudspeaker. This can be done for just the price of an internet connection. Unlike calls on the traditional networks, long-distance calls on the internet do not cost more than local calls.

The widespread take-up of internet telephony depends on the development of the infrastructure to provide sufficient and reliable bandwidth, and that seems increasingly likely to be achieved. However, voice quality on the internet is at present very poor because it is affected by delays in transmission – and that is why internet telephony remains only a fad.

Some internet telephony software systems can now be downloaded from the internet free of charge, some are being incorporated into browser software and bundled with the latest multimedia PCs. None have so far received much praise for quality from reviewers. But this could change rapidly.

The development of software standards by the Internet Engineering Task Force (IETF), the International Telecommunications Union (ITU) and the European Telecommunications Standards Institute (ETSI) could help to overcome the technical problems.

The IETF is working on protocols which could provide guaranteed bandwidth on the internet for phone calls, thus boosting its voice quality. The most important of these is RSVP, the reservation protocol, which guarantees the arrival time of information. Routers on the internet are now equipped with RSVP but desktop machines are not. They need to have it in order to be able to tell routers to give priority to voice messages.

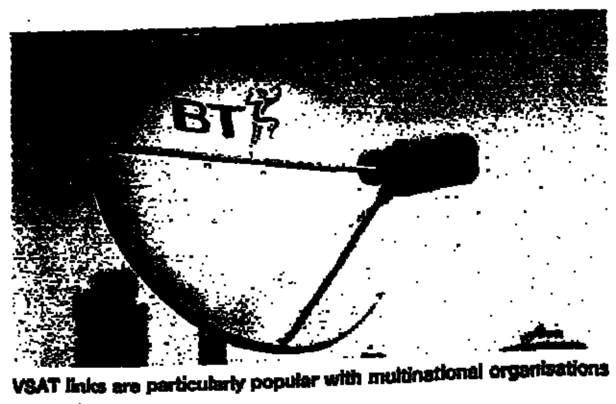
"RSVP is the next step towards guaranteeing the quality of service on the internet," says Mr Benjamin Ellis, product marketing manager for the router manufacturer Cisco Systems.

The key standard for achieving interoperability of internet phone systems is the ITU's H.323, on which some are already based. But so far, most of about 40 Internet phone systems developed in the past three years have followed a proprietary design, which makes it impossible for PC users to talk to each other unless they have the same software. The developers have to be persuaded, by market forces if nothing else, to bring them in line with standards. And to make this happen, the standards bodies have to make the standards clearer and easier to implement.

At present it is not easy for the developers to follow the standards even if they want to. But H.323 is approaching maturity and by the end of this year the developers may rally round it. ETSI has recently launched a project with nine leading companies to develop several internet telephony standards. It aims first to tackle standards for making calls to traditional phones from computers, then for calls from phones to computers and lastly for calls between traditional phones.

Mr David Gurle, ETSI's technical officer, says that whether or not the outcome will be a threat to the traditional networks depends on how the new technology is marketed. "It depends whether the market will accept lower quality of voice to be able to integrate voice and computer data," he says.

Voice quality can be maintained within intranets, where the routers and hubs can be controlled, but not within the public Internet, he says.



VSAT links are particularly popular with multinational organisations

VSAT SYSTEMS • By Ian Channing

European market set for lift-off

Pressure from the European Union has created a more favourable environment for VSAT operators

With increasing customer acceptance and an easing of the regulatory situation working in its favour, the European market for very small aperture terminal (VSAT) satellite communications seems set to enjoy solid growth into the next century.

The western European VSAT market has grown by 35-38 per cent annually over the past three years and there are now approximately 55,000 VSAT terminals installed or on order. Although still lagging substantially behind North America, where 60 per cent of the world's 250,000 VSAT terminals are installed, western Europe is now firmly established in the number two spot.

VSATs use satellites in geostationery orbits to provide high quality voice and data communications between widely dispersed sites. The satellite dishes used for VSAT communications are small – between one and two metres in diameter – and can be installed in less than a day.

There are a number of different types of VSAT network, with the most popular being the interactive two-way configuration, in which multiple sites communicate through a shared hub. Other options include mesh configurations where all the sites can communicate with one another, and single point-to-point links.

VSAT communications are particularly popular with multinational organisations which need to establish private networks. The alternative to VSAT is using terrestrial fibre or copper links which introduce additional difficulties.

"In Europe, for example, you have to deal with different operators in every country if you are putting in a pan-European network," says Mr Simon Bull, senior analyst with Communications Systems, based in St Albans, England, and author of the *1997 VSAT Industry Status Report*. "And that means you cannot control the quality and response times across the borders. With VSAT you can, because it is end-to-end."

The initial demand in western European for VSATs came from the multinational vehicle industry. Mr Thomas Bahnsen, marketing director of VSAT operator Telenor Satellite Services, says: "VSAT technology can be used for cross-border data and Lan-to-Lan [local area network] communications and for the transmission of video to update the car dealerships on new models and developments in technology.

"This can be done much more cheaply by VSAT than by terrestrial networks. The automobile companies had been exposed to the VSAT technology in the US, where it was introduced more than 10 years ago, and have brought the technology with them into the European markets."

VSAT technology provides an excellent communications solution for any organisation with a significant number of geographically widespread outlets and its use is now spreading in the retail sector, through companies such as Safeway and J. Sainsbury, and to banks, insurance companies and financial institutions.

The take-up of VSATs in Europe was, according to most industry observers, inhibited by regulatory barriers and concerns about the reliability of satellite technology. But pressure from the European Union has created a more favourable environment for VSAT operators and further liberalisation should ensure a continued easing of regulatory restrictions, stimulating growth in the VSAT market.

Mr Richard Aspinall, head of global satellite services at British Telecommunications, sees deregulation creating market opportunities in Europe. "We are going to see fast-moving deregulation and customers will be looking more and more at different types of technology. Traditionally in Europe, the PTTs have not sold VSAT services to their customers which gives operators like us the opportunity to sell them alternative technologies and services."

Educating the market to the benefits of satellite communications has proved to be the other big problem facing VSAT operators.

Mr David Nicholson, general manager of Kingston Satellite Services, says: "There has been a period of education but now the large corporates are waking up to the fact that VSAT can not only be very competitive, but can also provide a very reliable, high quality service."

There has also been rising demand for VSAT technology in central and eastern Europe, but with different market drivers. VSAT links, largely point-to-point rather than shared hub networks, are being used in eastern Europe to provide the connectivity that cannot be obtained from the existing antiquated terrestrial infrastructure.

Many eastern European organisations now have western partners who are familiar with VSAT technology and who see it as a method of rapidly providing the good communications they need in order to service their local customers.

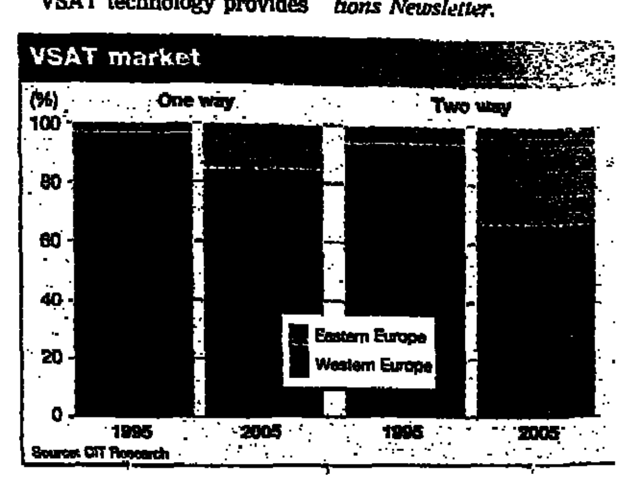
Government departments, particularly in the central European countries with close links to the European Union, are turning to VSAT technology. And demand for access to the internet and to western dialtone are also driving VSAT growth.

A study by UK-based market analysts CIT Research, *Satellite Communications in Europe 1996*, projected substantial VSAT growth in eastern Europe, with the installed base rising from 1,345 in 1996 to more than 15,000 in 2005.

In the overall European telecoms mix, VSAT seems certain to remain a niche solution. VSAT operators, however, are unlikely to be concerned when the niche equates to a 3-4 per cent share of a telecoms market worth $650bn.

The author is the Editor of the FT Satellite Communications Newsletter.

VSAT market



Source: CIT Research

مكتبات الموصل

MARKETS REPORT • By Christopher Price

Investors take their pick

Widely varying performances may reflect such issues as competition, earnings potential and coalitions

Is the investor love affair with telecoms issues fading? The past year has seen the share prices of Europe's newly privatised telecoms groups vary widely as investors have become increasingly selective.

At the same time, more new issues of telecoms stock is saturating the market as European governments continue to look to the sector to raise revenues.

"We think expectations and many valuations on national telecoms operators are far too high and because of this overall underperformance will continue," says Mr Andrew Harrington, telecoms analyst at Salomon Brothers in London.

Performances in the past year vary between a near-50 per cent rise in shares of Portugal Telecom against the Lisbon market, to a 32 per cent decline against the Amsterdam bourse by KPN. The other six quoted operators fall in between.

While this in part reflects the proportion of shares floated and the performance of local stock markets, analysts believe it also shows up more fundamental issues such as competition, earnings potential and coalitions.

The rise in Portugal Telecom's shares has accelerated in recent months as results ahead of expectations have been compounded by the formal link-up with Concert, the alliance forged by British Telecommunications and MCI of the US.

The Portuguese group, which has a free float of 49 per cent, reported a 51 per cent increase in net profits in 1996 at Es54.9bn. The results came ahead of a third global offering of the group which is now expected in September. The higher-than-forecast profit growth was partly a result of a lower-than-expected tax rate of 47.4 per cent of total earnings, compared with 53 per cent in 1995.

Also joining Concert is Telefónica, the Spanish telecoms operator which was fully privatised in February. News of the link-up boosted the shares, as did strong first-quarter results reported recently. These showed net attributable profits rising 16 per cent to Pta27.8bn. Consolidated revenues were Pta552.2bn, 21 per cent above those of the first three months of 1996.

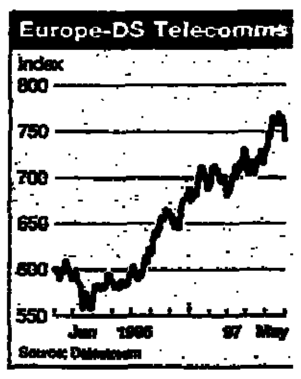
The group's profitability was fuelled by its international division, where revenues from the cluster of Latin American operators controlled by Telefónica increased 47 per cent to Pta108.4bn.

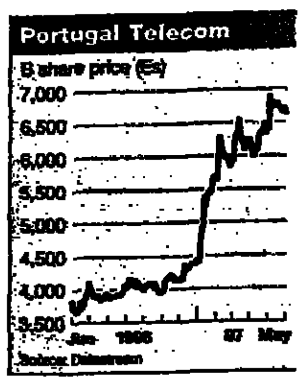
Shares in Telecom Italia have also performed well, rising 43 per cent in absolute terms in the past 12 months and by 24 per cent relative to the Milan exchange indices. The rise has been helped by news of the merger of Telecom Italia with Stet, the state-controlled holding company, ahead of further privatisation.

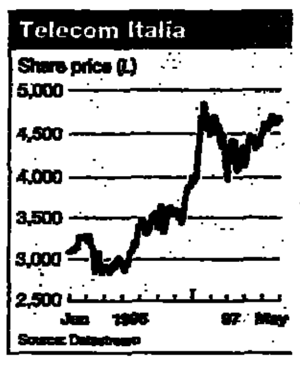
Telecom Italia's recent results showed profits surging 54 per cent to L2,119bn. Sales rose 4 per cent to L29,376bn. The strong profits advance reflected cost cutting, increased revenues from new services and lower debt service costs.

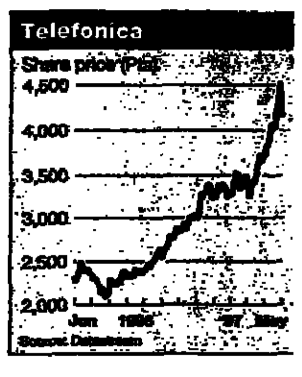
Worst performer over the past year has been KPN, the Netherlands telecoms group. While its shares are 7 per cent higher year-on-year, they have underperformed sharply against the rest of the Dutch market.

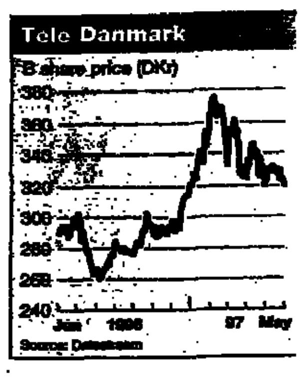
Part of the shares' lacklustre showing can be put down to the group's audacious A$2bn bid for TNT, the Australian transportation group, last October. KPN is funding the offer bid from working capital and a Fl 2.25bn revolving credit facility. There has also been the











opening up of the Netherlands telecoms market to competition. The Netherlands group reported a 9 per cent rise to Fl 2.46bn last year, mostly due to expansion abroad. Revenues increased 11 per cent to Fl 21.88bn. Competition in Netherlands telephony made itself felt through a drop in KPN's market share for international calls. Its revenues from this segment fell by Fl 170m, 7 per cent, as price-cutting set in.

Shares in Tele Danmark, which have risen by 15 per cent in the past year, have declined by a quarter relative to the Copenhagen stock market. Just under half the shares are floating.

Pre-tax profits last year declined 7 per cent to DKr5.06bn, despite turnover ahead 23 per cent to DKr23.30bn. Earlier this year, the group announced plans to shed 2,000 jobs, about 12 per cent of its workforce, over the next 18 months. It blamed the increasingly competitive domestic telecoms market. It is already meeting fierce competition in cellular telephony from Sonofon, its domestic rival. And Sonofon and Telia, the Swedish group, have both declared their intention to become full-service competitors.

The stark differences between European telecoms operators was highlighted in a research note from Morgan Stanley earlier this year. The investment bank warned that the flood of telecoms privatisations risked saturating investors.

Telecom equity issues – boosted by the $13bn privatisation of Deutsche Telekom, the German national carrier – were worth $24.8bn in 1996, compared with just $3.6bn worth of shares sold in 1992. "There is a clear trend: investors are consolidating holdings and starting to pick the winners," the bank says.

Company in the news: Hongkong Telecom • By Louise Lucas

Under the spotlight - and under fire on several fronts

Long-running speculation over Hongkong Telecom's future has intensified

As the territory's last significant British-controlled monopoly, Hongkong Telecom is firmly in the spotlight. And, as the last weeks of British rule tick by, Hongkong Telecom's share price has been chased up by investors betting on China interests eroding Cable & Wireless' 58 per cent controlling share.

The big money is on the Chinese Ministry of Posts and Telecoms (MPT) as buyer. Hongkong Telecom itself, which has shied from the subject of a possible sale, flagged as much last month after China Unicom, MPT's young and struggling competitor, expressed an interest in the Hong Kong carrier.

Speaking at the annual results, Mr Linus Cheung, chief executive of Hongkong Telecom, acknowledged discussions with both the China operators, and added: "Hongkong Telecom has maintained a much closer relationship with the MPT than with China Unicom."

But if investors are betting on MPT as a buyer, they are much less clear on what the sale terms would be, and even on what such a deal stands to bring in the shape of concrete benefits for Hongkong Telecom.

The hope (and what has inflated the share price) is that it would offer an entree into China's telecoms sector, from which foreign equity participation is now barred. Thus Hongkong Telecom is metamorphosed from a utility in an increasingly competitive marketplace to one at the face of a hugely undeveloped market.

But not all analysts expect MPT to pander to this scenario. As a commercial entity it is unlikely to divert profitable contracts into Hongkong Telecom which it could keep for itself. And even a sizeable stake would' not necessarily prevent it from setting up shop in Hong Kong to tap the lucrative China-Hong Kong traffic which makes up almost half of Hongkong Telecom's international business.

Mr Dylan Tinker, telecoms analyst with Jardine Fleming, reckons the carrier's current China project – the construction of a Hong Kong-Beijing fibre optic backbone – could typify the sort of contracts offered even after an MPT deal.

"This is indicative of the type of deal the MPT will farm out to Hongkong Telecom – low return, no equity ownership, capex intensive and technically challenging," he says.

As for the putative deal structure, most analysts anticipate an asset swap. This in part reflects the high cost of buying a significant stake in the $23bn Hongkong Telecom. An asset swap would contravene the 'no foreign ownership' rule.

However, Mr Tinker argues that there are signs this law could be relaxed early next year and that by limiting the swap to cellular assets, MPT relinquishes control on an activity which is neither overly sensitive nor lucrative, but rather requires heavy capital expenditure.

This suggests a deal may not be coming quite so soon as investors are hoping, but the waiting period certainly strengthens Cable & Wireless' hand if the share price continues to rise amid speculation. Besides, the question of Hongkong Telecom's future has been a long-running one. In April last year, speculation intensified when Hong Kong's aviation industry was restructured to give China interests a bigger slice. This was followed in January by a similar deal over China Light and Power, the territory's biggest electricity supplier.

Meanwhile, Citic Pacific, the Hong Kong-listed arm of Beijing's main investment agency and the vehicle through which China holds its aviation and power interests in the territory, was gradually paring back its holding in Hongkong Telecom. In January last year it reduced its stake from 12 per cent to 10 per cent. This was further trimmed to 8 per cent five months later.

The company completed its exit from Hongkong Telecom last month, selling its remaining 8 per cent stake to China Everbright Holdings, an investment company directly controlled by Beijing's state council, for HK$11.39bn.

Analysts immediately branded the deal as the first phase of a more sweeping restructuring. "It's the beginning of the story, not the end," said Mr Jason Billings, head of telecoms research at SBC Warburg in Hong Kong.

China's interest in Hongkong Telecom goes beyond the dilution of British interests. While deregulation is making its mark in Hong Kong as in other parts of the world, the carrier still enjoys a lucrative slice of the territory's telecoms business.

Hongkong Telecom's biggest moneyspinner is its international direct dial franchise (IDD), which last financial year contributed 52 per cent of total revenues.

But the company is seeking to reduce this reliance as it loses market share to its three competitors, who are estimated to have taken an aggregate 20 per cent slice of the market since launching services last year.

In addition, the Hong Kong regulators – as part of World Trade Organisation commitments – are seeking an early end to Hongkong Telecom's IDD monopoly, which runs through until 2006. These two events have forced the carrier to turn its attentions to other areas of growth.

Hongkong Telecom has committed HK$10bn over 10 years to its interactive media services (IMS), a bundling of internet, video-on-demand (Vod) and home shopping. Customers will have their first taste of interactive TV this summer when the service is unrolled to 2,500 households. The full launch is due in October – which means Hong Kong will have the first commercial fully-fledged interactive TV services, ahead of the US and Singapore (due to come on line next year).

Analysts, however, are less convinced by the commercial merits of IMS.

For a company facing assaults on so many fronts, Hongkong Telecom could well see the MPT as its white knight. But without admission to lucrative China projects, the change in ownership may mean less to Hongkong Telecom than investors think.

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NEWS IN BRIEF

Libertel joins EDS for mobile package

Libertel, a mobile telecommunications company based in the Netherlands and EDS, the giant US computing services group, have joined hands to create a joint venture telecoms company, Socratel.

The aim of the venture is to provide a mobile communications package including management systems and financial solutions tailored to customers' individual needs. Socratel will provide a mobile telecoms service through Libertel's GSM network, while information management will be provided by EDS.

Other partners in the venture include the financial partners Residentie of Achmea, Parcom of the ING Group and NeSBIC of Fortis.

Mr John de Wit, general director of Libertel, said the business telecoms market had changed from a small number of intesive users to large numbers of customers with very different requirements:

"The enormous growth in the use of mobile communications has given rise to an increased need for customers to have a better insight into user patterns and related costs. We believe Socratel can respond to these demands," he said.

Cryptic guidance

The Organisation for Economic Co-operation and Development (OECD) has approved guidelines for the use of cryptography in electronic commerce, principally the internet, according to the Intellectual Property Bulletin from Withers Solicitors. This comes on top of the ruling in California that federal laws limiting the export of encryption software to ensure the security of internet messages are unconstitutional as they violate free speech.

Cable billing

Lyonnaise Cable, the French cable TV subsidiary of Lyonnaise des Eaux, has ordered a customer management system from Anglo-French computer services company Sema Group. The system will be used for billing and customer support. It will be based around Intelcable software from US-based CableData.

Internet library

One of the most useful telecoms sites on the internet is the Telecommunications Virtual Library of research consultancy Analysys. This indexes and links to more than 5,000 telecoms-related sites throughout the world.

Also on the site (http: // www.analysys.com/) are the latest financial rankings of the main telecoms companies, and a number of subscription services, including a comparative study of international phone costs.

Free numbers

UK-based Digital Mail is giving away free personal numbers that can be programmed to call users wherever they happen to be on a particular day.

Additional services, such as integrated message notification, cost extra. This service can notify users via their GSM mobile's short message service, by pager, or by fax, of messages waiting for them.

Sita mail link

Sita, a global network used by the travel industry, has introduced a dial-up electronic mail service for remote offices that link to the Sita global network. This complements its standard e-mail service for companies with dedicated connections to Sita.

PRODUCTS UPDATE

Check e-mail by phone

Compuserve customers no longer need to take a laptop with them when they travel. Now they can have their electronic mail read to them over the phone by a computer-generated voice for 18p a minute.

After listening, the e-mail can be forwarded to any fax machine, or a standard acknowledgement can be sent.

The Global Connect service can also be used as an international calling card, undercutting BT's Chargecard. More information on 0800 895 658.

ISDN2 offer for buyers of adaptor

Electronic Frontier is offering free installation of BT ISDN2 (basic rate Integrated Services Digital Network) lines to anyone who buys a Teles ISDN2 adaptor for £99. BT will install and support the lines and quarterly rental and call charges are at BT rates.

Customers will be billed by Mainstream Technology, a business partner of UK-based Electronic Frontier. There is no call allowance – BT offers £115 for the first two years of a three-year contract, and £200 for the third year.)

Cellnet spreads to 60 countries

Cellnet's digital mobile users can now make and receive calls from 60 countries around the world – more than any other UK mobile network.

Its latest agreement is with the Oman network, GTO, and it plans to offer services from another 15 countries by the end of the year.

Kwik-Fit Mobile sets up data links

Kwik-Fit Mobile is to use RAM Mobile Data's network to transmit job and stock information between 150 mobile tyre fitters and eight control centres across the UK.

RAM was awarded the three-year contract, worth more than £500,000, after technical evaluation for data transmission against GSM (Global System for Mobile) and National Band 3. PEN*KEY 6100 hand-held terminals provided by Norand are used to communicate over the RAM wireless data network.

Ship positioning system launched

A new marine differential global positioning service (GPS) covering all of Europe has been launched by Racal Survey. The MarineStar service provides 2m to 5m positioning accuracies from the Mediterranean to the Baltic and Norwegian Seas, and from the Western Atlantic to the North Sea.

The service is expected to attract shipping operators, ferries, carriers of hazardous cargoes, fishing vessels and any other craft that may have to operate in confined waters in poor visibility.

Gartner Group's site updated

The Gartner Group research consultancy has updated its GartnerWeb internet site.

This enables clients to create customised research profiles that match the information they need to make decisions on corporate networks or information technology.

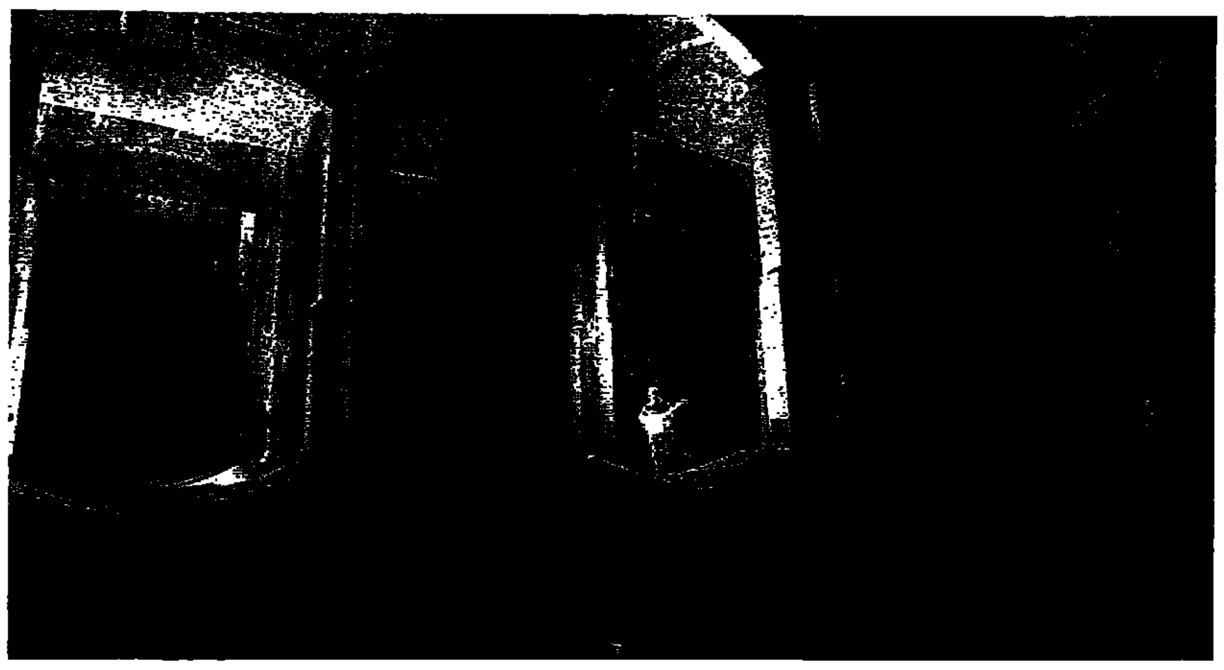
When information is released that relates to one of the profiles, it is delivered to the subscriber.

Clients can create personal home pages with links to the research titles that interest them. More on http: // www.gartner.com.

Conference calls

Advanced Systems Architectures of Alton, Hampshire, produce a range of conference products priced from about £10,000 for a 30-channel conference bridge.

Mr Chris Williams, managing director, says that a company using such an audio-conferencing system for a 10-party conference for just 40 hours in a year would break even within the year with the typical costs incurred when using an external teleconferencing bureau.



Staying in touch: Thames Water engineers conduct a routine inspection of an underground reservoir in south London with a capacity of 18m gallons. The company uses mostly analogue mobiles, but upgrades tend to be to digital. Picture: Ashley Ashwood

TELECOMS FUTURES

Internet can cut the cost of faxing

The quality of fax is the same using the internet or telephone lines, but there are big savings to be made

Companies which do a lot of international faxing can cut their phone bill by about 40 per cent by sending faxes over the internet, says Mr Bob Emmerson, author of a Pearson Professional report* on internet faxing.

This is possible because faxes sent over the internet bypass the expensive part of the phone journey. The public phone network is used only for domestic hops. The saving varies with the distance but "as a typical example," says the report, "it is about 95 per cent cheaper to send a fax from Germany to South Africa via this new medium. And intra-office faxing is free if the company already has 24-hour connections to the internet."

What's the catch? Phone calls can be made over the internet, but there is a perceptible delay between speaking and hearing. Faxing is different. Mr Emmerson says: "The quality of fax over the public *phone network and the net* is the same."

A standard fax is a binary file sent as a stream of data packets over the public switched phone network (PSTN). All that is required for the same fax to be transmitted over the internet is a change of protocol – to TCP/IP, the internet protocol.

To send faxes over the net, says Mr Emmerson, a company needs both a fax processor board and a fax gateway – a communications device – on its local area network server computer. The fax processor board turns a document into a standard computer-based fax for sending over PSTN. The fax gateway converts the fax so it can be sent over the net as a data file.

Local faxes are not cheaper over the net. So any solution needs to be able to handle both processes. For free faxing between offices a company must install fax boards and compatible fax gateways at all its sites.

At present, different brands of fax gateway cannot work together. This could change, however, as gateways based on the Group 5 multimedia messaging standard start to appear – the standard should be finalised by early next year. Once Group 5 is established, the report says, telecoms companies and internet service providers will all be offering global faxing services.

Mr Emmerson says companies should not wait until then, because they can benefit from internet faxing now.

Besides, Mr Emmerson adds, "an international fax may cost a few dollars to send, but the walk to the facsimile machine is the big ticket issue. On average, it takes 10 minutes to send a one-page fax this way. It would only take a few seconds using internet fax."

**Internet Faxing: The Business Case. FT Telecoms & Media Publishing. Pearson Professional. £200.*

SMALL TALK

Paying to listen in

GSM digital mobile calls were once so secure that even governments could not tap into them.

The calls are scrambled between phone handset and base station.

The authorities in France, Germany and some other countries were concerned about not being able to keep tabs on the underworld and tried to get mobile phone companies to pay for unscrambling equipment.

Not surprisingly, the companies refused and ever since governments have had to pay a high price to listening in.

No longer secret

Prepaid mobile phone cards were a big hit when they came out in France. Some say it is because calls to mistresses made with the cards would not show up on bills. The cards could be bought over the counter in chemists shops with no questions asked. But not now the government has cracked down, and buyers must supply detailed identification. Tant pis.

Double time

Every four minutes another network is added to the world and every four-tenths of a second another user comes online, says Nortel.

Little wonder, then, that internet call volumes in the US are said to be doubling once every four months.

Dinosaur cards

Phone cards are becoming part of the rapid growth in film merchandising.

In the US the latest are dinosaur cards from MCI featuring monsters from *The Lost World*, Spielberg's *Jurassic Park* sequel.

BACK CHAT

Thames Water cuts phone bill by £2m

King is always looking for savings, but not at the expense of quality

You can see why Tony King, telecoms manager at Thames Water, is one of three finalists for Telecom Manager of the Year*.

Mr King took over telecoms at Thames Water three years ago, combining the communications activities of 12 companies. In the process he managed to shave £2m off the BT phone bill.

He is always on the lookout for cost savings, but not at the expense of quality, or of forcing solutions that staff do not want.

The company uses mostly analogue mobiles, but upgrades tend to be to digital. After finding that it took two temporary and one full-time member of staff to manage the company's mobile phones Mr King contracted out this task. Now Vodafone company Vodac manages Thames Water's mobiles.

This saves on staff costs, and chores such as informing the Inland Revenue of who has phones. Vodac also provides monthly itemised bills, which show which phones are seldom used – these users are switched to the low-user tariff. Thames Water also has 300 to 400 Cellnet mobiles to keep Vodafone on its toes.

Thames Water staff use Psion organisers to record meter readings. At home they slot them into a cradle which downloads the data. Mr King is a great believer in mobile communications: Thames Water has 2,500 mobiles and 2,250 pagers.

For fixed telephony, he has put in an integrated voice and data network – using the frame relay protocol to connect local-area networks. Remote pump stations connect to the network via X.25 packet-switching. The network also handles some of Thames Water's telemetry needs for leakage monitoring and surveillance – Mr King was part of a team that put fibre optic lines in water pipes.

BT is the company's main supplier for voice, although Thames Water uses cable in some areas and Cable & Wireless Communications (formerly Mercury) for long-distance national calls.

Voice compression software is used to cut out the silences in conversations, reducing voice traffic by 20 per cent to 40 per cent.

Mr King, who spends £17m a year on telecoms for Thames Water, is a member of the Telecom Managers Association. He says the biggest issues are "service quality and getting the best value for the business. I'm a businessman, then a telecoms manager".

**Telecoms Manager of the Year is run by Network Week and will be judged at Networks '97 (June 24-26 June).*

AGENDA

Dates for your diary

June: Oftel statements on Universal Service, consumer representation (follow-up statement), network charge control. Consultative statements on mobile number portability, implementation of interconnection directive. Publication of Oftel News, Oftel's quarterly publication, and of the summary of responses to Universal Service consultative document.
June 9-13: Telecoms and the Internet, IIR (London).
June 9-14: Asia Telecom 97 conference, sponsored by the International Telecommunications Union and the Telecom Authority of Singapore (Singapore).
June 16-17: Network Access and Resale, AIC Conferences (Brussels, Belgium).
June 17-19: Fighting Mobile Fraud, IBC UK Conferences (London).
June 17-18: Handset '97 Technology, IBC UK Conferences (London).
June 19-20: The Wireless Resale Explosion Conference, IBC USA Conferences (Florida, US).
June 23-25: Brand Development and Management in the Telecoms Industry (two days) plus one-day post-conference workshop, IIR Telecoms and Technology (London).
June 24-25: Global Mobile Roaming, IIR (London).
June 24-26: Networks '97 (Birmingham NEC).
June 25-26: Trading International Telecoms Traffic, AIC Conferences (London).
June 26-27: Implementing TMN, AIC Conferences (London).
June 30-July 1: Broadband Networks, AIC Conferences (London).
July 30-July 1: Exploiting the Growth of ISDN in Europe, IIR (London).
July 1-2: Data Over GSM, IBC UK Conferences (London).
July 1-2: The Future of UK Broadcasting, The Adam Smith Institute (London).
July 1-3: DCS 1800 Global Summit, IBC UK Conferences (Rome).
July 2-3: Third annual Scottish Call Centre Conference, Moat House Hotel, Glasgow.
July 3-4: Cost Allocation in Telecoms, IIR (London).
July 7-8: Intelligent Services for Mobiles, AIC Conferences (London).
July 7-8: EC Competition Law and Trade, Euroforum (London).
July 7-8: Mobile Multimedia, IBC UK Conferences (London).
July 8-9: Fixed and Mobile Convergence, IIR (London).
July 8-9: Bundling Telecoms Services, Euroforum (London).
July 14-15: Distribution Channels for Telecoms Services, IIR (London).
July 14-15: Cable Internet '97, IIR (London).